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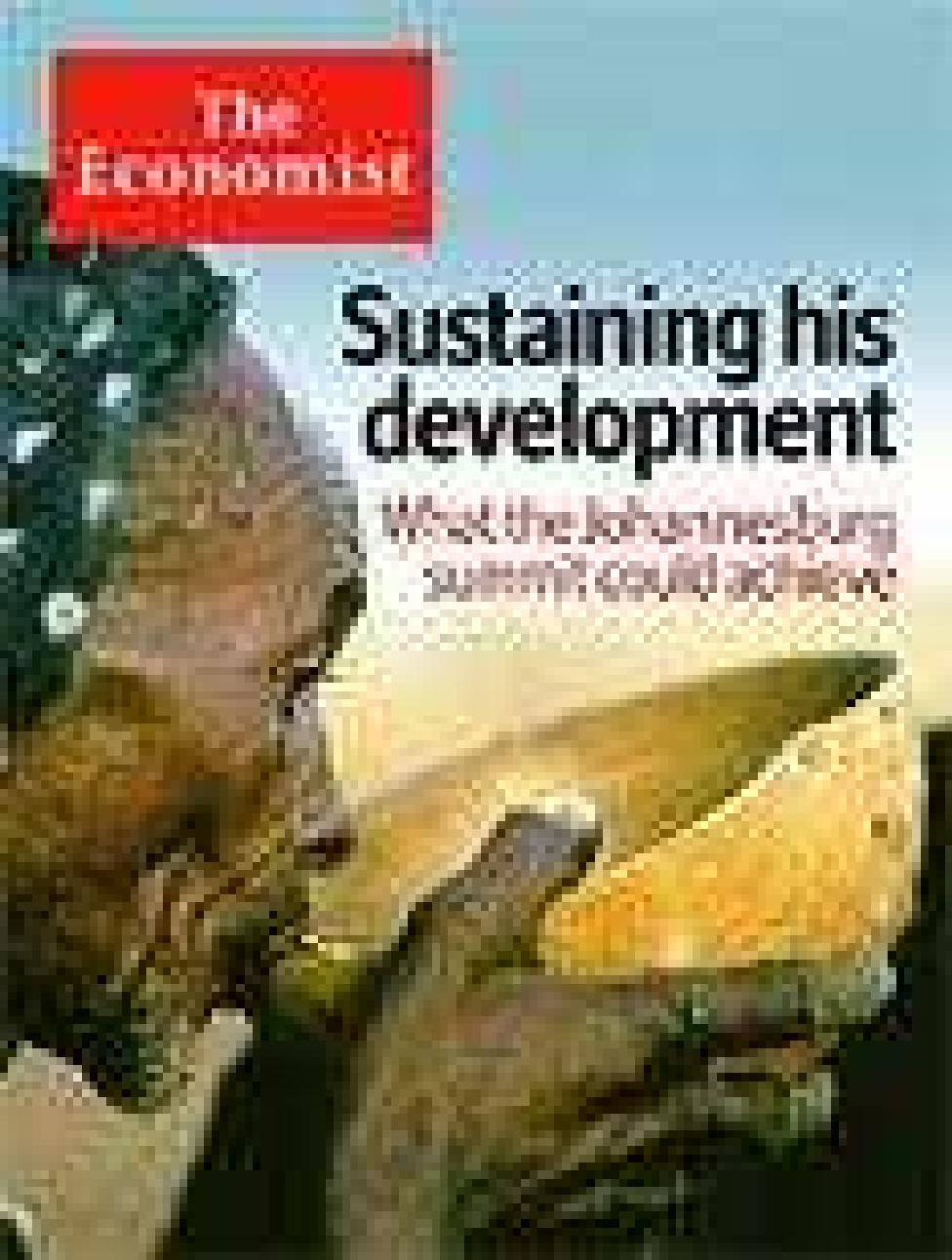
Sustaining his development

What the Johannesburg summit could achieve



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The biggest environmental gathering in a decade could do some good—but only if it does not overreach ... More on this week's lead article

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Robert Borkenstein

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Business this week

Aug 29th 2002
From The Economist print edition

Summiting up

The UN's **World Summit on Sustainable Development** opened in Johannesburg. Solid achievement may be hampered by lack of agreement over the precise meaning of sustainable development. AIDS, aid, trade, hunger, poverty, energy, the environment and desultory chatter on the state of the world have all vied for a hearing.

See article: The World Summit in Johannesburg

Phone charges

Scott Sullivan, former chief financial officer of **WorldCom**, and another executive, were charged over the accounting fraud that brought down America's second-largest long-distance telecoms company in July.

An American congressional committee investigating **WorldCom's** collapse learned that **Salomon Smith Barney**, now a unit of Citigroup, had allocated hundreds of thousands of shares in desirable initial public offerings to WorldCom executives. SSB admits handing over the shares but denies “spinning”, offering valuable shares to win banking business.

Marconi agreed a restructuring that will hand control to its creditors. Shareholders in the embattled telecoms-equipment concern, which was formerly the British company GEC, will be left with a mere 0.5% stake.

Andersen Worldwide agreed to pay $40m to settle a lawsuit brought by Enron shareholders against the auditor of the bankrupt energy trader. Andersen's international affiliates will also pay Enron's creditors $20m. Andersen's American arm, which was mainly responsible for auditing Enron, was not included; lawsuits against it are still pending.

See article: Enron and the economics of greed

YTL Power denied paying a bribe of £1m ($1.5m) to secure the purchase of **Wessex Water**, a subsidiary of Enron, for $777m this year. Colin Skellett, Wessex's chief executive, was questioned by British police regarding “corrupt payments”. He denied involvement in the sale of the water company but admitted pocketing a £1m in a consulting agreement.

Europe's struggling **mobile-phone operators** are likely to get some respite from the European Commission. Huge sums spent on third-generation licences may be offset if competing telecoms firms are given the go-ahead to share the costs of building networks. Despite this concession, profits still seem far distant.

Siemens is planning to cut a further 4,000 jobs at its fixed-line telecoms unit, some 7% of the total, as part of drastic cost cutting in response to plunging orders for for the German company.

Steel past the guards

Pity **America's steel makers**. George Bush attempted to mollify the EU by granting exclusions from steel tariffs of up to 30% announced in March. Now America's International Trade Commission has rejected charges of dumping brought by America's steel makers against firms from five countries. The

ITC is still considering the same charges against 15 other countries.

See article: Trade wars: cooling off?

Potential bidders for **Hershey Foods** saw public opposition to the sale reinforced by Mike Fisher, Pennsylvania's Republican attorney-general, who is running for governor. He asked the state's charity regulator, which has jurisdiction over Hershey's controlling charitable trust, to block a sale temporarily to allow time for consideration of the effects on the community.

See article: The battle for Hershey

Hewlett-Packard announced losses of $2 billion for the quarter to the end of July, after taking charges of some $3 billion related to its recent acquisition of Compaq Computer. Sales in the quarter also disappointed but HP stressed that the economy—not the merger of the two firms—was to blame.

Bank withdrawal

The world of Nordic banking was rocked by the exit of the chief executive of the region's biggest bank, **Nordea**. Thorleif Krarup departed from the post shortly after the bank announced that second-quarter profits had slumped by 66% over a year ago to *euro*91m ($84m)—but he will remain with the bank.

National Australia Bank beat a retreat from the American mortgage market by selling the parent company of HomeSide Lending to Washington Mutual for A$2.3 billion ($1.3 billion). The American company had already purchased HomeSide's operating platform and its assets earlier in the year for $1.9 billion.

Ups and downs

America's economy suffered mixed fortunes. Durable-goods orders in July surged by 8.7% compared with a year ago. However, according to the Conference Board, consumer confidence continued to fall, to its lowest since last November. **Germany's** main indicator of business confidence also fell in August for a third month in a row.

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Politics this week

Aug 29th 2002
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Debating Iraq

AP

Dick Cheney, America's vice-president, rattled his sabre at **Iraq**. He told war veterans that if Saddam Hussein built a nuclear weapon he would "seek domination of the entire Middle East" and the world's oil supplies. Donald Rumsfeld, the defence secretary, said that America would not be dissuaded from an attack by lack of international support. Just as well: Saudi Arabia, Egypt, Germany and China, among others, lined up to say that war on Iraq would be a mistake.

See article: Taking on the doubters

Six men were charged with conspiring to support **terrorism in America**. The authorities claimed that most of them were part of a "sleeper cell" in Detroit.

The Congressional Budget Office forecast that **America's budget deficit** would persist until 2005, reflecting higher spending estimates and lower revenue. It also predicted a surplus of just $336 billion in ten years' time compared with its ten-year estimate of $5.6 trillion when George Bush came to office at the beginning of 2001.

See article: The shrinking budget surplus

America slammed the cell door on ever more of its own. The world's most **enthusiastic jailer** had 1.96m of the population under lock and key at the end of 2001, some 25,000 up on a year before, and 4.66m people on probation or parole.

A group of big international banks promised to maintain their "general level of business" with **Brazil**—but stopped short of promising to restore the lines of trade credit that were cut during recent financial-market turmoil. Polls showed an upturn in support for Jose Serra, the government candidate.

See article: Brazil's presidential campaign

Hasta la vista, Batasuna

A **Spanish** judge, Baltasar Garzon, suspended the activities of Batasuna, a Basque political party, for three years because of evidence linking it to ETA, the Basque terrorist organisation. Spain's parliament asked the Supreme Court to outlaw the party altogether.

See article: Spain bans Batasuna

After **floods** that devastated large parts of Central Europe, the European Commission announced its intention to create a permanent European Union fund of up to *euro*1 billion ($980m) for natural, environmental and industrial disasters. It is hoped that *euro*500m will be available for disaster relief this year.

Kemal Dervis, **Turkey's** former economy minister, joined the Republican People's Party in an attempt to strengthen the centre-left in the run-up to November's general election. Mr Dervis had resigned from Turkey's government on August 10th.

See article: Turkey's Kemal Dervis chooses sides

EPA

The race for **Germany's** chancellorship tightened ahead of the vote on September 22nd. After a live television debate between the chancellor, Gerhard Schröder, and his main opposition rival, Edmund Stoiber, opinion polls suggested that both men did equally well.

See article: Germany's tightening election race

Officials from the United States and Russia co-operated with Yugoslav scientists to escort 45kg of **weapons-grade uranium** from Belgrade to Russia, where it will be converted into a form that cannot be used in weapons. The operation was largely paid for by a privately backed American organisation, the Nuclear Threat Initiative.

The Bush administration said that America's role in NATO could change if the European Union refuses its request for agreements to protect Americans from prosecution at the new **International Criminal Court**. European foreign ministers were due to meet to discuss the issue.

Give and take

Under the "**Gaza, Bethlehem first**" scheme, Israel eased some restrictions in Bethlehem. But talks about redeployment in Gaza were cancelled when Israel charged the Palestinians with trying to smuggle in arms by sea. The Israeli army invaded deep into the Gaza strip; a family of four were killed.

Jonathan Sacks, Britain's chief rabbi, said some aspects of Israel's conflict with the Palestinians had become incompatible with the principles of Judaism. However, Israel's chief of staff, Moshe Yaalon, said that the Palestinian terror threat was a "life-threatening cancer".

See article: Israel's chief of staff speaks out

On a visit to Baghdad, the foreign minister of **Qatar** told his hosts that his country would prefer to avoid war but that Iraq must allow in UN weapons inspectors. The tiny Gulf emirate houses a huge American military base that might have been used as a springboard for attacking Iraq.

Graft is rife in more than two-thirds of the 102 countries surveyed by Transparency International for its latest **corruption index**, the Berlin-based watchdog said.

See article: Dismal graft

Nigeria announced that it would have to defer payments on some of its foreign debts, blaming lower oil revenues.

Namibia's government announced that it would seize 192 foreign-owned farms covering more than 1m hectares of land. President Sam Nujoma had said that "arrogant white farmers" and sluggish land redistribution would lead to civil strife.

Talking Tigers

Sri Lanka's Tamil Tigers named the team that will meet government officials in long-awaited peace talks set to begin on September 16th. The rebels' delegation will be led by Anton Balasingham, a veteran negotiator.

In a crackdown on corruption in state-run companies, **China** executed a former Air China official for embezzling more than 26m yuan ($3m) between 1992 and 1995.

AP

Afghanistan reclaimed its title as the world's top opium producer. After a drop in production under Taliban rule, the UN estimated that the country would produce 2,952 tonnes of the drug this year, overtaking the Golden Triangle in

Thailand, Laos and Myanmar, which is set to produce some 900 tonnes.

A court in **Japan** rejected demands for compensation brought by 108 Chinese, who claimed they were the victims of Japan's biological warfare unit, set up in the second world war. The court acknowledged for the first time the use of biological warfare but ruled that individuals had no right to claim compensation from a state.

John Bolton, the United States' chief non-proliferation official, said **North Korea** is the world's main peddler of ballistic-missile technology.

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The Johannesburg summit

Sustaining the poor's development

Aug 29th 2002
From The Economist print edition

The biggest environmental gathering in a decade could do some good—but only if it does not overreach

JUST what is the UN's "World Summit on Sustainable Development" for? This giant jamboree, which opened in Johannesburg this week and will culminate on September 4th with a meeting of over 100 heads of government, risks being about everything and therefore, in the end, about nothing. No one in their right mind is against "sustainable development". Everyone thinks it would be terrific if there were less poverty, less pollution, less disease, less war, less corruption. Not quite everyone, alas, favours more democracy, especially in the poorer parts of the world; in the richer world, too, not quite everyone, alas, favours more economic growth. But the world did not need tens of thousands of people to travel to South Africa in order to learn all of that.

Such a gathering is bound to do some good, simply through the contacts made and ideas exchanged, in myriad small but useful ways. But there are also big dangers in summits such as these. Grand meetings, like the "Earth Summit" in Rio de Janeiro in 1992 to which this was originally meant to be a follow-up, can breed confusion and cynicism. Confusion, because of the cacophony of different voices and objectives, to which this broader summit looks especially prone. Cynicism, because the bold promises made are so rarely met. How many countries have actually hit (or are really on their way to hitting) the targets set at Rio, or in Kyoto in 1998, for cutting greenhouse-gas emissions? Precious few.

Keep the real agenda simple

George Bush has responded to these dangers by staying away, sending his secretary of state, Colin Powell, instead. That was a mistake, offering *carte blanche* for criticism of America for almost any environmental or economic ill, some justified, most not. That is a pity, for America has actually played a more constructive role at the summit than most think (see article). Other rich-country leaders can, however, learn from that public-relations blunder. But only if they focus on what really matters, and on what can really be achieved.

The first thing they should do is to tell the truth about poverty, growth and the environment. Thabo Mbeki, South Africa's president, delighted the anti-growth lobby with his opening speech, but did a huge disservice to the facts. "Sadly", he said, "we have not made much progress in realising the grand vision...the tragic result of this is the avoidable increase in human misery and ecological degradation, including the growing gap between North and South. It is as though we are determined to regress to the most primitive condition of existence in the animal world, of the survival of the fittest."

In contrast, what responsible heads of government should say is that the ten years since the Rio summit (home of that "grand vision") have seen lots of progress in enhancing human welfare, especially in the most populous countries of the world, China and India, thanks to those countries' decisions to liberalise their economies and to open their borders to more trade and investment. Such globalisation has already narrowed the overall gap between North and South. But some countries, notably in Africa and the Middle East, have chosen not to take part in that process, and misery there has increased. Others, particularly in southern Africa, have been so beset by disease that they have been unable to take part. Much more can, and should, be done to help them do so. And measures can and should be taken to ensure that the

future economic growth of the poor world, if that happy outcome occurs, does not unduly exacerbate the problem of global warming.

The second thing that western leaders can do is to state clearly what they can, and cannot, do for their poorer counterparts. They cannot “share assets more equitably”, as some claim; making the rich poorer will not make the poor richer. Virtually everything needed to help countries grow and reduce poverty depends chiefly on domestic policies—ask South Korea, China and even India. Western leaders can still, however, be helpful, in two powerful ways. They can open their country's markets to the goods that many poor countries are best suited to produce, namely food and textiles. And they can focus their overseas aid on the issue that is most difficult for poor countries to deal with themselves: disease.

There are signs that the summit could achieve something on both fronts. Farm subsidies are properly the domain of the new round of world trade talks launched in Doha last November, but are also a source of much hypocrisy. It is outrageous that rich countries preach free trade to the poor while lavishing over $300 billion a year on their own farmers. Despite its recent increase in production subsidies (to levels still below Europe's), the United States recently put forward a welcome long-term proposal for reducing subsidies for agriculture, much pooh-poohed in Europe. The Johannesburg summit offers a fresh opportunity to embarrass the Europeans into taking the proposal seriously, and to get all sides committed to a broader dismantling of subsidies in the Doha round.

On disease, too, progress could be made. The scourge of AIDS is debilitating African economies, as are other diseases such as malaria and tuberculosis. More broadly, dirty water and air, and poor sanitation, are the biggest preventable causes of death. Faster economic growth would help poor countries solve those problems. But disease itself thwarts that growth. There has been much useful talk at the summit of agreements between businesses, aid organisations and governments to try to fight against disease, in ways both big and small. The anti-business lobbyists may not like it, but the UN has been right to encourage such agreements, and rich-country leaders should welcome them too. Better still, they should make further increases in their official aid budgets to take on these diseases, both bilaterally and through global funds.

But what of the environment? Isn't that what this summit was supposed to be about? Yes, but enabling poor countries to grow and be healthier will go a long way towards protecting it. If they want to make one big green gesture, though, leaders could most usefully agree to phase out the subsidies they pay for the dirtiest fuels, particularly coal. That way, both rich and poor can work together to avoid global warming.

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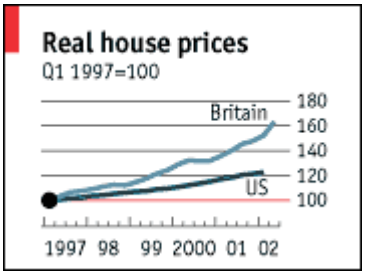
House prices

Bubbling under

Aug 29th 2002
From The Economist print edition

Investors' perpetual chase for large risk-free returns will prove vain



MOVE over, stocks: here comes property. Although equity markets have staged something of a rally in recent weeks, many investors are still too unnerved by the two-year bear market to pile back in. In America, July saw the largest-ever net monthly withdrawals from equity mutual funds. But most alternative investments are unappetising; and interest rates are so low that leaving cash in the bank carries little appeal. Hence the latest fad, to which many investors now look for their desired double-digit returns: bricks and mortar.

Historically, houses have been treated more as places to live in than as investments. But in recent years, that has changed. For many investors, property has become a key part of their financial portfolio. Many consider it a safer guarantee of a retirement income than equity investments that have shed a third of their value, dodgy company pension plans that can go belly up, or reliance on an overburdened state. There is nothing wrong with investing in housing: a sensible portfolio should be spread among many assets, including property, and houses often come with tax breaks. But some investors may now be putting too much faith in ever-rising property prices.

Partly because the market is by its nature illiquid, good comparable data on house prices has long been hard to find. That is why, earlier this year, *The Economist* launched a regular survey of global house-price movements. This week we are publishing our first update, carrying the numbers forward to roughly the middle of this year (see article). The data confirm that, in many countries, house prices have been rising fast. British house prices are up by over 20% on a year ago. American house prices have risen by more in real terms in the five years to mid-2002 than in any previous period since 1945.

Just as with equities in the late 1990s, property bulls are now coming up with bogus arguments for why rampant house-price inflation is sure to continue. Demographic change is said permanently to be boosting demand. Physical restrictions and tough planning laws are said to be curtailing new supply. Similar arguments were heard in Japan in the late 1980s and Germany in the early 1990s—and yet in recent years house prices in these two countries have been falling. British house prices also tumbled in the late 1980s.

The truth is that house prices, like equities, cannot for long outpace the growth of nominal incomes. In the long run, the ratio of house prices to earnings is thus the best guide to their sustainable value. And in Britain, America and some other rich countries, that ratio is now at or near record levels. That does not mean that house prices are sure to collapse; but it makes it highly unlikely that they will go on rising as fast as they have been. Indeed, recent indications (since our survey data) are that house-price inflation has been slowing sharply.

The lesson for investors is that, in an era of low nominal growth in GDP, they cannot expect double-digit real returns from equities, houses or anything else. The markets of the late 1980s and 1990s were exceptional. In future, real returns of 5% or so may be the norm. Anybody wanting a bigger nest-egg will now have to save more, rather than rely on bubbly markets—though it would be better if they did so gradually, for too sudden a jump in saving could trigger a new recession.

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Civil liberties in America

A needless victory for terror

Aug 29th 2002
From The Economist print edition

Too many freedoms have been eroded in America since September 11th

Get article background

"WE HAVE entered a new type of war. It's a war against people who hate freedom... People who love freedom will join with us... We're fighting for liberty and freedom..." George Bush was no doubt sincere when he spoke those words, a few days after the dreadful attacks of last September 11th. But if truth is always the first casualty of war, and patriotism is the last refuge of a scoundrel, then freedom usually ends up somewhere in between: a noble cause that somehow suffers collateral damage in the pursuit of the real objective, be that national security or dictatorial vanity. So it has been all over the world in the past 12 months, as we report (see article). But it is in the United States that the damage has been particularly dismaying. America is, after all, the land of the free, and the land to which increasing numbers of people elsewhere look to safeguard their own freedoms.

The concern is not just that freedom has diminished over the past year. From the moment the first airliner struck the first of the Twin Towers it was inevitable that it would. Any decent society must be just as well as free, and no just society can allow bigots, zealots or criminals the freedom to terrorise the innocent. And if the innocent are to be able to lead their lives in safety, they too must accept restrictions on their liberty: more safety, less liberty. It is a trade-off. A balance must be struck.

"The executive branch seeks to uproot people's lives, outside the public eye, and behind a closed door. Democracies die behind closed doors," a federal court says

So most of the blame for the diminution of freedom lies with al-Qaeda. Reasonable people should not complain that they are now subject to more checks than they were a year ago, that their bags may be searched in public places, their financial transactions monitored or suspicious behaviour investigated. Better intelligence, involving greater surveillance, clearly has a part to play in preventing further attacks.

It is far from clear, though, that many of the Bush administration's actions over the past year will be effective or that they would be justified even if they were. The administration has been much too ready to try to evade both the law and the courts, to act in secret, and to resort to indiscriminate means of oversight and investigation. Its claim that it can designate even American citizens as enemy combatants and thereby hold them indefinitely while denying them the right to a trial is particularly worrying. The American constitution is a flexible document which recognises the possibility of grave threats to the republic. It allows for the suspension of *habeas corpus*. But it does not look kindly on unreasonable searches, secret trials or detention without any trial at all.

Act wisely, or not at all

Terrorism is undoubtedly hideously difficult to deal with, and politicians are well aware that the voters will be unforgiving if they are not seen to be doing something. Some actions, however, are worse than inaction. If every act of terrorism is met by a tightening of security and a concomitant loss of freedom, governments will be giving terrorists an automatic victory with every new outrage. That is not the way John Ashcroft, the attorney-general, sees it. He argues that “those who scare peace-loving people with phantoms of lost liberty” only aid terrorists. He has things on their head.

Fortunately, the courts are there to uphold the law, and this week the administration was dealt a sharp rebuff when a federal appeals court ruled it was wrong to hold hundreds of deportation hearings in secret. “The executive branch seeks to uproot people's lives, outside the public eye, and behind a closed door,” it said. “Democracies die behind closed doors.” It was right. Whatever the need for greater surveillance, no case has been made for abandoning the right to open justice.

Mr Bush may have made a mistake when he chose to call his response to September 11th a “war”. Talk of war conjures up the need for the suspension of normal political life and even of civil liberties. That is bad enough in a war of the conventional kind. But this war, if war it is, is one that may go on for ever. It can certainly never be declared won; terrorism, like poverty, is probably always with us. Awful as it sounds, that may mean learning to live with terror, even as you fight it: to be dominated by a fear of terrorists, to credit them with greater power than they really have, and to tear up your freedoms in the face of their threats is to hand them a needless victory.

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Terrorism in Spain

Batasuna banned

Aug 29th 2002
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A mistake, even though ETA's political party deserves no sympathy

EPA

IT IS not easy to make a defence for Batasuna. Whatever its protestations, it is plainly the political wing of the Basque terrorist group ETA, whose tactics are as nasty as its cause is flawed. ETA wants independence for the Basque region of northern Spain (and south-western France). It cannot persuade a majority even of Basques that this is a good idea, perhaps because the Basques are not oppressed; indeed they enjoy a high degree of self-government. So it pursues its objective through bombing and other forms of violence. Batasuna itself has not been proved to be complicit in these killings, which have so far claimed the lives of over 800 people, but it does not condemn them. Some of its members are surely members of ETA. Why then should anyone want to defend Batasuna, which was closed down by a court order this week after Spain's parliament had voted to ban it (see article)?

They should not. But that is not to say that the banning is wise. For reasons that probably lie in Spain's Francoist (and fiercely centralising) past, Batasuna has quite a bit of support: it took 10% of the vote in the regional elections last year, 18% in 1998. And though violence is not popular, the cause of Basque separatism is: other groups, including many of the mainstream nationalists who run the Basque region, also hope for independence. Batasuna is already casting itself as a victim, unable now to air its opinions legally.

Other considerations too should have counselled caution. In principle, democracies—especially those as young as Spain's—should ban political parties only for outright anti-democratic activity. That has not been established in Batasuna's case. Its views may be odious, but free speech should be valued to protect not anodyne views but offensive ones. Moreover, measures short of a complete ban could, and should, have been taken against it. It would have been right to hold it responsible for the damage caused by its young firebrands in their ritual demonstrations. And it could well have been excluded from the taxpayer-financed funds handed out to Spain's political parties.

The circumstances of the ban are also somewhat disquieting. Judge Baltasar Garzon, the harrier of Chile's Augusto Pinochet, has played a leading role, certainly in the closing down of Batasuna's offices, which took place with a considerable show of force. Judge Garzon is anything but publicity-shy. Even the motives of the prime minister, Jose Maria Aznar, are not beyond suspicion. He says that Batasuna is incorrigible, and that his aim is to ensure that people will not be too frightened to stand as candidates of the mainstream parties in the Basque municipal elections next May. But critics point to a vengeful streak in the banning: ETA has tried to kill Mr Aznar (and other leading politicians), and his attempt a few years ago to wrest power from the nationalists in the regional government failed. Some believe he is trying to divide the nationalist camp in order to promote the interests of his own party.

That might not be so terrible if it worked. The worry, though, is that this will do nothing to end terrorism, though it may well make it harder to find a channel through which to talk when the time comes, as surely it must, for political overtures. In truth, the Basque problem will not be solved by repression alone. At some stage, politics will be involved. In a country where it is taboo even to countenance self-determination for the Basques, let alone to hold a referendum, that stage still seems far off. The banning pushes it even further away.

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Letters

Aug 29th 2002
From The Economist print edition

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Political oaths

SIR – If legislation is the answer to control errant bosses, do you not believe also that elected representatives should be required to swear under oath that they have read the legislation on which a vote is being taken and that it contains no typographical or other errors ("I swear...", August 17th)? Why not hold them to the same standard they are setting for others? When it comes to innovative accounting, no private corporation can match what America's government does with its "on-budget" and "off-budget" classifications or its practice of spending cash in trust funds for purposes other than that for which it was collected.

Not a day goes by without revelations of fraud, mismanagement or incompetence in the use of government funds. I would much rather rely on the morality and good sense of most of the business people I know than on politicians, or on the members of the media for that matter.

Robert Coquillette
Lexington, Massachusetts

Free trade for the Americas

SIR – You say, in essence, that America should not get distracted with bilateral deals such as free-trade agreements with Chile and Singapore ("Fast track to Doha", August 3rd). Rather, you recommend that America concentrates on more general agreements such as Doha. You are right about the importance of Doha, and the crucial role that American leadership will have in successfully completing a new multilateral trade round. However, your view about the free-trade agreement with Chile is too narrow. It is important because it is a crucial step towards the Free-Trade Agreement of the Americas (FTAA), which would create a larger free-trade area than the European Union.

FTAA's target date is only two-and-a-half years away. So far, little progress has been made towards it precisely because America's government has lacked fast-track authority since 1994. Now that fast track is back, signing a deal with Chile would signal a renewed American commitment to FTAA. In turn, clear progress towards FTAA would help change expectations about the region, as it would shift attention from Argentina's crisis and Brazil's problems to the vision of a more prosperous shared future in the Americas.

Felipe Larrain
Pontificia Universidad Catolica de Chile
Santiago

Other-worldly?

SIR – You are grossly unfair to the "worldly philosophers" we economists are—most of the time (Economics focus, August 17th). My generation (I am not yet in my mid-50s) was taught to value the real-world pricing studies of R.L. Hall and C.J. Hitch from the 1930s (and P.W.S. Andrews over an entire lifetime), who pioneered the activity of "learning by asking" in structured and systematic ways. You also neglect Sir John Clapham, whose visit to a hat factory in the 1920s inspired the great debates about imperfect competition and returns to scale in manufacturing. That Milton Friedman belittled the work of these foot soldiers and shunted the worldly philosophers away from "asking about prices" and "learning by asking" was a tragedy from which we are still to recover.

K. Vela Velupillai
Galway, Ireland

Reply from the Rock

SIR – Alejandro Vigil (Letters, August 17th) alleges that Gibraltar specialises in tax evasion and drug trafficking. It does not. It has been held up as a benchmark jurisdiction for financial regulation by the British government. It has been externally audited and found co-operative and compliant with international standards by the Financial Action Task Force on anti-money-laundering controls and America's Internal Revenue Service regarding customer-identification rules. It has given a commitment to the OECD on transparency and the exchange of information. Most recently, the IMF audited Gibraltar's financial services and found that it complied with 66 out of 67 international standards (the exception, inadequate on-site inspections in the insurance field, is being addressed), remarking that it is "at the forefront of the development of good practices".

As to being damaging to Spain, Gibraltar's economy employs several thousand Spanish workers and channels substantial investment to Spain. Mr Vigil's accusations are a poor attempt at justifying the unjustifiable—the undemocratic nature of the current Anglo-Spanish talks—by tarnishing Gibraltar's reputation.

Keith Azopardi
Deputy-chief minister
Gibraltar

Muslims in Europe

SIR – Your article on Europe's Muslims falls into the "them and us" trap that stifles the progress of political thought on Islam ("Europe's Muslims", August 10th). Islam is an Eastern import like Christianity but it is neither a sudden nor recent one. Europeans made the first journey to Muslim lands in a campaign of ethnic cleansing—the Crusades. This began a series of exchanges that were not all bad.

Fresh socio-economic, scientific and administrative thinking enabled modernisation in Europe. Muslims have existed in the Balkans and southern France for centuries; Muslim Spain was the equitable melting-pot of which America can only dream. Muslims cannot be understood as an insular migrant minority.

Abu-Nusaybah Naved Siddiqi
Slough, Berkshire

SIR – As a transplanted Muslim in America, I am grateful to western culture for helping me liberate myself from all the dogma and orthodoxy that the Koran had forced upon me. Sadly, for most of my family and friends in the West the Koran continues to work like a stop-gap, constantly reminding them that only Allah can engage in critical thinking. As a result, they are trapped in the language of absolutes, viewing the world only in black and white. Also, saddened by exile, they favour the certainties that orthodoxies provide rather than trying to understand how a western democracy works.

Sabah Salih
Danville, Pennsylvania

SIR – It seems that Europe is not at ease with Islam. Why must Europeans insist that their countries have a monolithic cultural identity and that Muslims should assimilate? Muslim youths should adhere to their religious practices and cultural roots if they wish. The Turkish secular model you mention is the darling of the West although the military establishment oppresses elected Islamists and imposes "secularism" on all and sundry. And before Europe ventures to teach Muslims about sensitivity to multiculturalism, it should look at its own chequered recent past.

Mohammed Rehan Malik
Santa Monica, California

SIR – Your article has a photograph of three Muslims watching a cricket match ("Dim drums throbbing in the hills half heard", August 10th). They seem as confused as I am. The square-leg umpire is at mid-off and has joined with the bowler's umpire in giving the batsman "out". However, it is nice to see the traditions of the English game continuing: the wearing of whites, the reluctance of the batsman to walk

and the impending rain.

Anthony Starkins
Melbourne

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Civil liberties

For whom the Liberty Bell tolls

Aug 29th 2002
From The Economist print edition

Almost everywhere, governments have taken September 11th as an opportunity to restrict their citizens' freedom

Get article background

FROM the outset, the struggle against al-Qaeda was cast by George Bush as a war for freedom, and for most people, in most places, the 350 or so days that have passed since last September 11th will not be associated with any noticeable diminution of their freedom. For most Afghans, and especially Afghan women, they will surely be associated with liberation. For a few people, though, the aftermath of September 11th has brought unfair arrest, detention without trial, enforced expulsion or some other form of intrusion or repression. Even for those not directly affected by al-Qaeda's attacks, the war in Afghanistan or the anti-terrorism measures taken almost everywhere, the past 12 months may yet come to be seen as an *annus miserabilis* as far as freedom is concerned.

The reason is that, from motives good and bad, governments everywhere have been restricting rights or enforcing existing laws more harshly, and thus reducing the freedoms that people used to enjoy. This is not to say that they have always been wrong to do so: most people in a democracy are quite willing to suffer the inconvenience and invasion of privacy that come with a search of their bag or briefcase when they board an aircraft or enter a public building. Indeed, they might well be worried if they were as free and unimpeded in such places today as they had been a year ago. But their freedom has been curtailed nonetheless and, taken together, many such minor infringements of freedom, coupled with the precedents they create, may add up to a considerable loss of liberty.

In the United States, where the concept of freedom is built into the very idea of what it means to be an American, and where freedom is therefore never taken for granted, any attempt to reduce it is stoutly resisted. Even so, attempts there have been. Those that have caused most concern to civil libertarians fall into one of three categories. First are the administration's attempts to circumvent the law. “Bush, Ashcroft [the attorney-general, John Ashcroft] run roughshod over Bill of Rights,” says a study by the Cato Institute, a conservative Washington think-tank, a sentiment echoed by other watchdogs.

One example is the government's contention that “enemy combatants” have no rights to the due process of American law—meaning they can be denied access to a lawyer and may be detained indefinitely without trial—and moreover that the president can designate even American citizens to be enemy combatants. That is what Mr Bush has done in the case of Yaser Esam Hamdi, a Louisiana-born man captured with the Taliban forces, then transferred to the American base at Guantanamo Bay in Cuba and now held on a naval brig in Norfolk, Virginia.

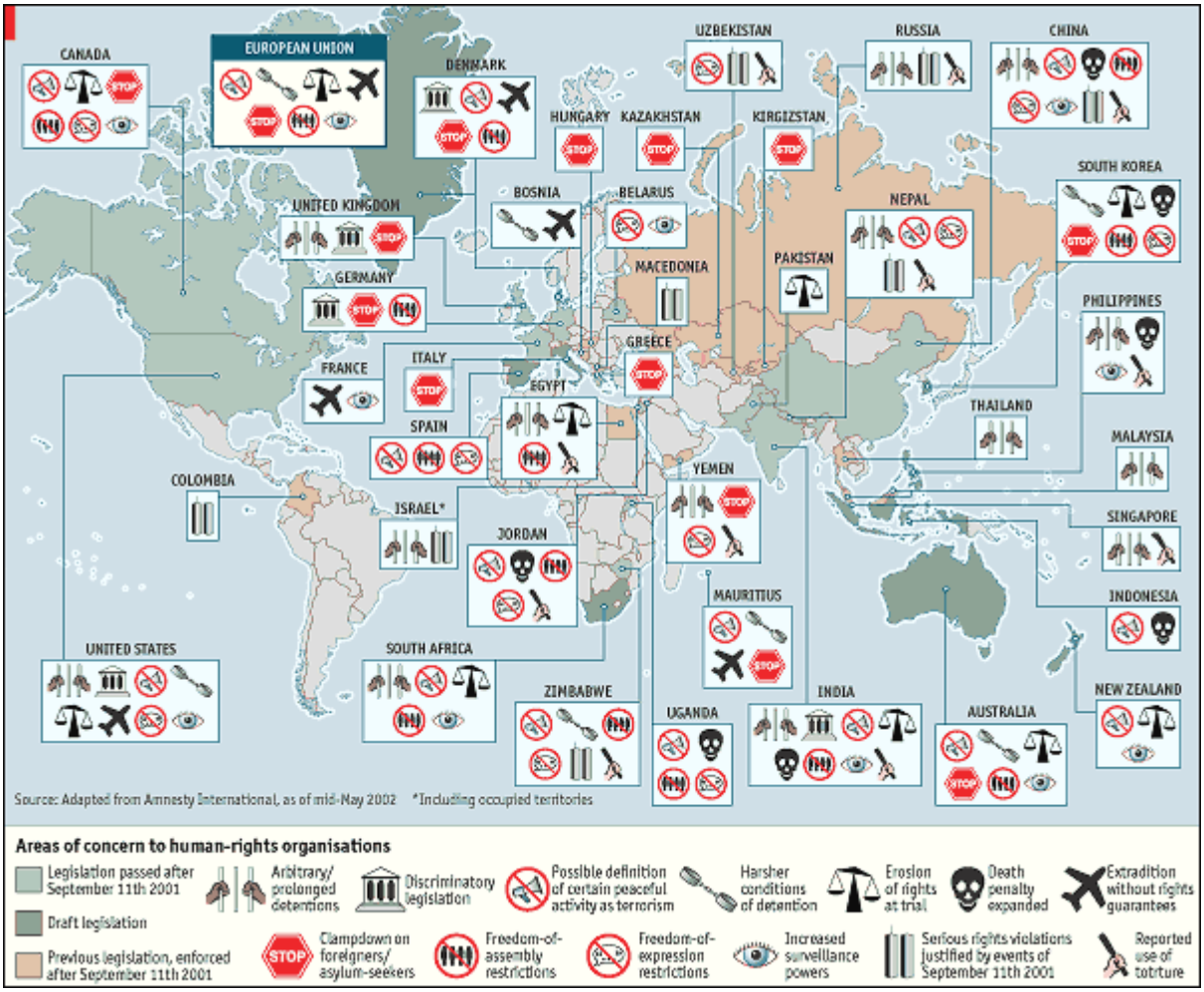
Both in his case and in that of Jose Padilla, another American, this one arrested in Chicago on suspicion of involvement in an al-Qaeda plot to set off a “dirty” bomb, the government's motive seems to be a desire to avoid civilian trials. That is thought to be because of the fierce defence put up by John Walker Lindh, an American who fought for the Taliban, and the bizarre course of the trial in a federal criminal court of Zacarias Moussaoui, accused of being al-Qaeda's 20th hijacker. If the government gets its way, though, it will be able simply to lock up enemy combatants, even Americans, without the bother of a trial. Mr Bush has already called Mr Padilla (also known as Abdullah al Muhajir) a “bad guy” and “a threat to the country who is now off the street, where he should be.” Donald Rumsfeld, the defence secretary, has said, “We are not interested in trying and punishing him at the moment. We are interested in finding out what he knows.”

Rules are for ignoring?

A similar desire to escape legal obligations seems to lie behind the government's eagerness to bypass extradition procedures when it has transferred people suspected of links to terrorism from one country to another, neither of them the United States. Typically, such people—the numbers are unknown—will have been picked up in a country like Indonesia on CIA advice and then taken to a country such as Egypt or Jordan where they can be interrogated using procedures, including torture, that would be illegal in the United States.

A dislike of tiresome rules was also evident in the government's early reluctance to consider the (now) roughly 600 fighters held in Guantanamo Bay to be prisoners of war under the Geneva conventions. It can be seen even more clearly, though, in Mr Bush's order authorising military commissions to try suspected terrorists. Critics are appalled not just that the order betrays a profound lack of confidence in the criminal justice system, but that it also gives the president the unfettered discretion to select those who will be tried by military tribunal. He will also be the ultimate decision-maker in any appeal.

The second general category of concern about the government's anti-terror measures since September 11th is the secrecy in which they have been taken. The Cato report accuses the administration of “supporting measures antithetical to freedom, such as secretive subpoenas, secretive arrests, secretive trials and secretive deportations.” Human Rights Watch, which keeps vigil over civil liberties from New York, reported two weeks ago that “Some 1,200 non-citizens have been secretly arrested and incarcerated in connection with the September 11th investigation... Turning the presumption of innocence on its head, the Department of Justice kept [752 of them] in detention until it decided they had no links to or knowledge of terrorism... Most were ultimately removed from the United States.” Jill Savitt of Human Rights Watch worries that because so much has happened in secret, it has all been done with little public debate.



The third area of concern is the sinister nature of some of the wider measures now being taken in the war on terror. Not surprisingly, Arabs have come under close scrutiny over the past year. Despite denials of racial profiling, the authorities stand accused of going after Muslims and Arab-Americans indiscriminately through programmes like the FBI's systematic interviewing of 5,000 people of Arab descent.

Looks funny

In truth, it would be odd if the FBI were not at work among Arab-Americans, but the need to take great care should be apparent from the lessons of history. It is now well recognised that much injustice was involved in campaigns against communists and anarchists after the first world war, in the internment of over 110,000 Japanese-Americans during the second world war and in the McCarthyite witch-hunts at the start of the cold war. Such things could never happen again, some may argue. Yet the administration has been eager to start TIPS, a Terrorism Information and Prevention System in which millions of citizens will be asked to spy upon one another and send their titbits to a central database. Recent legislation will allow the police to demand records from any business about any person, including medical records from hospitals, educational records from universities, even the reading tastes of shoppers in bookshops and borrowers from libraries.

Americans, of course, are not alone in having seen their freedoms reduced recently. Most countries have taken the opportunity of September 11th to tighten up in the name of security. Common to most of these efforts, as to many of the anti-terror measures recommended by Mr Bush in July, is the long-standing nature of the desire behind them. Often existing legislation has just been extended or amplified. Thus in early June it emerged that the British government wanted to use the Regulation of Investigatory Powers Act, passed two years earlier, to allow countless Whitehall departments, local authorities and other bodies to demand all manner of information about e-mails and other communications. The ensuing outcry obliged it to restrain itself somewhat, just as it soon had to rethink its desire to give foreign authorities access to information about British companies. Yet another rebuff came in July when its post-September 11th anti-terrorism act was ruled discriminatory and in breach of human-rights law. The act had given the home secretary powers to detain indefinitely foreigners suspected of terrorism without charging them or sending them for trial.

Buff up the thumbscrews

Most European countries responded to September 11th by rushing through new measures or dusting off old ones to give the police wide powers to investigate and detain suspects. The European Union brought in a long-contested warrant that allows police in one country to arrest people wanted in another for any of 32 crimes, many of them unrelated to terrorism. The European Commission has also proposed much wider definitions of terrorism and what constitutes a terrorist group. Most EU governments have also leapt at the chance to act against asylum-seekers and tighten immigration laws, though their motives in doing so have little to do with security.

They have leapt at other measures too. Thus Spain has moved to ban Batasuna, the political wing of the Basque terror group ETA; Joaquin Almunia, a former leader of the Spanish Socialist Party, says it would have been impossible before September 11th. France has amended its existing anti-terror legislation to allow the police greater freedom to stop and search cars; intended to catch terrorists, the measure is in fact chiefly used to find drugs, says Michel Tubiana, president of the League of the Rights of Man. Another amendment obliges telephone companies and Internet service-providers to keep for a year records of all their customers' communications. In practice, says Mr Tubiana, it is hard to keep only the numbers and not also the content of the messages.

Germany, too, is preparing legislation requiring e-mails and website-address records to be retained. Its internal intelligence agency, the Office for the Protection of the Constitution, has been given direct access to records held by banks, and can now ask the postal service and airlines for information on demand.

On the fringes of Europe, Russia has astutely moved to improve relations with America and, simultaneously, to crack down on the rebels in its secessionist Muslim republic of Chechnya. Despite plenty of evidence to suggest that the long years of fighting in Chechnya have been fuelled by much more than Islamic extremism, Russia has tried to portray the war as little more than an anti-terrorist struggle. Though Chechnya is undoubtedly infested with Islamic extremists, their presence hardly justifies Russia's own terror tactics. Yet Russia escapes censure, certainly from an America now absorbed above all in a global fight against terrorism.

Farther afield, India, emboldened by September 11th, has passed a law that authorises the police to detain suspects for 90 days without trial and to accept evidence from unidentified witnesses. India has long been concerned about terrorist infiltrators from Pakistan. But the real purpose, says Kapil Sibal, an opposition member of Parliament who is also a constitutional lawyer, is to use “this draconian legislation” against India's own citizens.

Hong Kong's anti-terror proposals, which define a terrorist act as one involving the use or threat of force to influence a government, have also been criticised as being so vague that they could be used against a group as unpolitical as the Falun Gong cult. Critics also worry about the power given to Hong Kong's chief executive, who can, for example, freeze the assets of anyone he considers, with “reasonable grounds”, to be a terrorist.

Much worse has happened in mainland China, or rather in its province of Xinjiang. There the government has long been persecuting Muslim Uighurs who have protested at the discrimination they suffer and at the policy of swamping them with migrants from other parts of China. In the past, though, the authorities were at pains to play down the Uighurs' protests. But since September 11th the Chinese have deemed it geopolitically correct to admit to the discontent and describe it as terrorism. Indeed, they claim that 1,000 Chinese Muslims have been trained in Osama bin Laden's camps in Afghanistan. Astonishingly, America this week obliged China by declaring a Muslim separatist group to be a terrorist organisation. Amnesty International had earlier reported thousands of political prisoners, torture and summary executions, with an intensification of the “strike-hard” anti-crime campaign leading to executions among alleged Uighur nationalists. A new wave of executions started after September 11th, it said.

Similar tales come from the new states of Central Asia. The threat of Islamism there has been used to justify ever greater repression by presidents such as Nursultan Nazarbaev of Kazakhstan and Askar Akaev of Kirgizstan, who are squelching dissent as they entrench themselves in power. The sad truth is that September 11th has given despots everywhere a licence to brand all their critics terrorists and take action accordingly. The United States, which anyway needs the help of men like Mr Akaev to prosecute its war against al-Qaeda, is often disinclined to criticise, partly because some of the measures are directly modelled on American ones. Indeed, in a hideous piece of Grand Guignol inspired directly by Mr Bush's actions, President Charles Taylor of Liberia has declared three of his critics (the editor of a local

newspaper and two others) to be “illegal combatants”. They would therefore be tried for terrorism in a military, not a civilian, court, ruled Mr Taylor.

The widening crack

If all this reads like a tale of woe, no wonder: that is what it is. The world is undoubtedly less free than it was on September 10th last year. Most of the blame for this lies squarely with al-Qaeda. Many governments, it is true, have simply seized the opportunity to pass restrictive measures that they have long coveted. Others, less malign, have undoubtedly been too ready to restrict liberty in the name of an effective campaign against terror: they have reckoned, probably correctly, that the voters would be less forgiving of another terrorist attack made possible by excessive freedom than of the various new restrictions they have imposed. Security is uppermost in the minds of citizens these days, and the true price of an erosion of freedom becomes apparent only over time, which is to say after the next election.

But spare some sympathy, if you can, for the politicians. Some values—good values—are to some degree always at odds with each other, which means that governments must try to balance them. Freedom and security are two such values, even if the trade-off between them is not as simple as politicians often try to claim: a loss of freedom does not necessarily bring a commensurate gain in security.

Do not despair. Though restrictions, once in place, are always difficult to dislodge, and governments are usually loth to give power back to the people from whom they have taken it, freedoms lost can nonetheless be regained. If they are not, however, Mr Bush's fine words last September will have simply served to widen for ever the crack in the Liberty Bell.

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War with Iraq?

Putting his cards on the table

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This week, the administration took some confusing first steps to explain its Iraq strategy. If it wants allies, it will have to try harder

FOR months, critics and friends alike have been urging the Bush administration to explain clearly why it wants to remove Saddam Hussein. The idea is that it will then be easier to decide whether to support military action when it comes.

This week, the Bush administration began to play its hand. Speeches by the vice-president and defence secretary provided the most detailed justification so far for wanting to get rid of Mr Hussein. The White House then leaked its lawyers' thoughts about the minimal role Congress formally needs to play in declaring war. The result of all this clarification? A chorus of dissent from abroad and a lukewarm reception at home.

The most important step forward was the speech by Dick Cheney to the Veterans of Foreign Wars, in Nashville. He focused almost entirely on one concern: the Iraqi dictator's attempts to build a nuclear weapon (and the regional consequences this might have). If Mr Hussein got a nuke, said Mr Cheney, he "could be expected to seek domination of the entire Middle East, take control of a great portion of the world's energy supplies, directly threaten America's friends throughout the region and subject the United States or any other nation to nuclear blackmail."

In dealing with such threats, Mr Cheney said that military force was the only solution. Against those who argue that America should rule out pre-emptive action until Iraq actually acquires a nuke, the vice-president retorted: "That argument comes down to this: 'Yes, Saddam is as dangerous as we say he is, we just need to let him get stronger before we do anything about it...' Many of those who now argue that we should act only if he gets a nuclear weapon would then turn around and say we cannot act because he has [one]."

Mr Cheney also dismissed the argument that Mr Hussein's nuclear ambitions can be thwarted by a return of United Nations weapons inspectors. He went though the history of Iraqi subversion of the inspectorate. "A return of inspectors would provide no assurance whatsoever of compliance with UN resolutions. On the contrary, there is a great danger that it would provide false comfort that Mr Hussein was somehow 'back in his box'."

Mr Cheney's speech ought to have clarified the administration's position. It provided concrete justification for removing Mr Hussein (nuclear weapons, not links with al-Qaeda and September 11th). It was hard-headed (America must remove the Iraqi dictator, not because he is evil, but because he threatens the region). And it was about as plain as it could be that military action is the only course open.

But debate raged on, not least because Mr Cheney's was not the only message from the administration. Just before the vice-president's speech, Anthony Zinni, a senior adviser to Colin Powell, the generally doveish secretary of state, said the administration should deal with the Israeli-Palestinian conflict first. Meanwhile, another State Department spokesman explained that Mr Powell was not attempting to rally allies behind any military action because none is planned: "there are no war drums to beat." This also seemed to dovetail with Mr Bush's earlier claim to be "a patient man".

From the opposite end of this spectrum to Mr Powell, Donald Rumsfeld explained that he was also uninterested in rallying allies—though for markedly different reasons. "It is less important to have unanimity," said the hawkish defence secretary, "than it is to be making the right decision and doing the right thing, even though at the outset it may seem lonesome." In other words, Mr Bush would not be delayed in attacking Iraq by lack of support.

Which is perhaps just as well, since Mr Cheney's speech on the face of it failed to produce any support—either at home or abroad. After a lunch at Mr Bush's ranch in Texas, the Saudi ambassador left with his government firmly opposing military action. "There is no country in the world that supports [it]," said Crown Prince Abdallah's foreign-policy adviser, Adel al Jubeir. Egypt's president, Hosni Mubarak, said he feared "chaos happening in the region" if America attacked Mr Hussein. And the foreign minister of Qatar, which is home to a big American air base, popped up in Baghdad to decry "American threats" (Iraq's version) or to explain that the tiny emirate "would prefer to avoid a war" (Qatar's).

And Mr Cheney's speech actually seemed to strengthen the opposition of Germany's chancellor, Gerhard Schröder. Picking up the claim that a return of weapons inspectors would only raise "false comfort", Mr Schröder argued that this amounted to a change in policy that he could not support: America had given up trying to foil Mr Hussein's nuclear ambitions by inspections and "if the aim changes now, then it's one's own responsibility." Translation: you're on your own.

Virtually all European governments concur. All have said America should make one last effort to get arms inspectors back in before proceeding to military action. Even Britain may be wobbling a bit: a new poll this week showed most Labour voters now believe that Tony Blair should not support American policy on Iraq.

This sounds as if America is on a collision course with the rest of the world over Iraq. It may indeed come to that. But three reservations need to be expressed. First, the administration has only just begun to make its case more clearly. Mr Bush, who has not weighed in recently, is due to address the UN General Assembly on September 12th. Second, the administration needs to hold off making its case with full vigour until it is nearly ready to launch a military action; otherwise it risks adding frustration to disagreement. Third, Mr Bush may get allied support only on the brink of war, or even after bombing has started. As Mr Rumsfeld insisted, "leadership in the right direction finds followers."

That said, despite Mr Cheney's efforts, the administration still seems oddly reluctant to persuade even likely supporters to back military action. In holding back, Mr Bush's team seems to confirm the general suspicion that it does not give a hoot what anyone else thinks—including Congress. This suspicion was increased by the leaked White House legal opinion. Mr Bush's lawyers argued that he does not need congressional approval before attacking Iraq on three grounds. None looks watertight.

Three steps forward?

First, say the lawyers, military action against Iraq was approved in advance by a congressional resolution after September 11th. Three days after the attacks, Congress gave the president licence to act against whomever he determined was responsible for them. Therefore, if the president is convinced that Iraq helped al-Qaeda, then Iraq can be attacked. (Perhaps real evidence of a connection may yet come to light, but Mr Cheney's speech seemed to indicate that he does not believe it will.)

Second, that the resolution authorising force in the Gulf war, passed by Congress in 1991, still applies. Mr Bush's lawyers say this document enforces UN Security Council resolution 678, which states that "all necessary means" may be used to "restore international peace and security in the area [of Iraq]."

Theoretically, say the lawyers, peace has not been restored, so America can still fight for it.

Legal experts are unconvinced. Louis Fisher, author of a book on the growth of presidential war powers, argues that this would appear to mean that Congress has permanently delegated its authority to declare war to another governing body, which it may not do under the constitution. Others note that resolution 678 and the 1991 congressional act concern Kuwait specifically, not the region as a whole.

The third argument is the most basic. Under the constitution, the president is commander-in-chief and can direct American forces on his own, so long as war is not declared. The trouble is that the constitution gives the president power to “repel sudden attacks”, but not to commence an offensive war. Thus the crucial question is whether a “pre-emptive” war is offensive or defensive. Mr Cheney seemed to assert the latter: “We realise that wars are never won on the defensive. We must take the battle to the enemy.”

This, surely, is only the first stage in a long argument with Congress. Most people still expect Mr Bush eventually to follow his father and get congressional approval; it would force Democrats to back him or risk looking unpatriotic. But was the best way to win them over to threaten to ignore them altogether? Like so many things this week, the administration's diplomacy needs a smoother touch.

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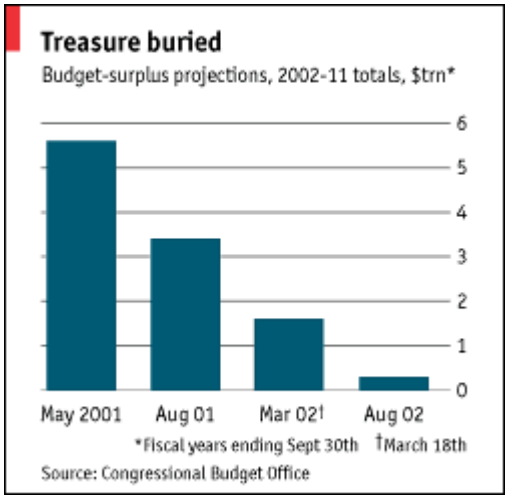
The budget

A big black hole

Aug 29th 2002
From The Economist print edition

Whatever happened to those surpluses?

IT IS a startling reversal. When George Bush became president in January last year, he was looking forward to a $5.6 trillion budget surplus in the decade to 2011—more than enough to fund his ambitious tax-cutting strategy. Even Alan Greenspan, the cautious chairman of the Federal Reserve, had started to fret about what the government would do with all the surplus revenues filling its coffers. Yet when the Congressional Budget Office released its latest forecasts on August 27th, most of that surplus had mysteriously vanished. The CBO's new ten-year figure is a mere $336 billion.



This revision reflects, almost equally, higher spending estimates and lower revenue projections. Spending is up partly because of the fight against terrorism, but mainly because budget deficits, now forecast to run until at least 2005, and then lower surpluses thereafter, push up the cost of interest payments on the government's debt.

The most puzzling change, though, is on the revenue side. Tax revenues have plummeted in the current fiscal year, recording the biggest drop since 1946. Some of the fall is easily explained: the recession has inevitably cut tax receipts, and the collapse in share prices has reduced capital gains on which people pay tax. But the revenue fall goes far beyond what was expected: the CBO's director, Dan Crippen, called it “astounding”.

Working out what has happened will have to wait until everyone's tax returns are in. But the CBO is, for now, assuming that the shortfall will persist, and possibly even grow. Its concern is clearly shared by the White House's Office of Management and Budget, which only last month issued markedly more optimistic projections.

Mitch Daniels, Mr Bush's budget director, pointedly chose not to dispute the CBO figures. Instead, he put the best gloss on them, noting that they showed an eventual return to balanced budgets.

That seems disingenuous. Without the Social Security surplus—which, until quite recently, both Republicans and Democrats had pledged not to touch—the budget will be in deficit until 2010. And the now modest surpluses which will follow will themselves vanish if Mr Bush succeeds in making his tax cuts permanent. They are currently due to end in 2010, and tax rates will revert to what they were when the president took office. Nobody in Washington, DC, seriously expects that to happen. But as the government's financial position deteriorates, Mr Bush may come under increasing pressure to delay, or cancel, those parts of his huge tax-cut programme which have yet to come into effect.

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The great food debate

Come on in

Aug 29th 2002 | SAN FRANCISCO
From The Economist print edition

How bad is American food? And whose fault is it?

AMERICANS are in a pickle over food. Just as a decade of financial optimism has given way to the shocked discovery that people are poorer than they thought they were, so an era of working out in gyms and low-fat dieting has been mocked by reports of the nation's shocking chubbiness and other food-related forms of ill-health.

The figures on fat are striking. The proportion (if not the proportions) of Americans who are obese rose from 15% in 1991 to 27% in 1999. Youngsters show the same trend: 10% of them are now obese. Add in the merely overweight and you cover 60% of American adults and 25% of children. David Satcher, who retired as surgeon general in February, has estimated that obesity contributes to 300,000 of the 2m deaths each year in America. Treating diet-related conditions such as cancer and heart disease cost $117 billion in 2000.

What to do? The Bush administration has launched a $190m advertising campaign aimed at making children more energetic. This week, the Los Angeles school board moved to ban the sale of fizzy drinks in its schools. In May, a Californian state senator abandoned her bill to impose a tax of two cents on every can of pop statewide, but others are still pushing for “sin taxes” on burgers and sugary drinks.

The courts have become involved too. Last month, a New Yorker sued four fast-food chains. He had eaten their food regularly in the course of reaching 272lb (123kg) and notching up two heart attacks. The restaurants, he said, had not warned him that his diet might be harmful.

Meanwhile, another battle has broken out within the fad-crazed health industry itself. The traditional low-fat, bran-and-broccoli dieticians have been challenged by another school that advocates high-protein eating. Beef and lobster, they say, are fine, but you have to stay off carbohydrates such as pasta and bread.

Is the American stomach really in such poor shape? By the standards of most of the world, Americans are fairly healthy. Life expectancy continues to rise; it is bettered only by places that absorb far fewer immigrants from poor countries. Despite jeers from Europe about the number of additives and hormones that go into American food, there have been no health scares on the scale of Britain's mad-cow disease.

Yet Americans are surely right to be agitated about their food. There is an overwhelming amount of evidence that their diet is doing many of them a great deal of harm. The “fat-acceptance” lobby is right that you can be heavy and fit; but without exercise, too much weight makes diabetes and other potentially fatal diseases more likely. Independent of the implications of being overweight, diet also plays a role in other illnesses, such as cancers of the bowel, colon and prostate.

There is also a clear social divide. Both hunger (which still afflicts 10m households in America) and unhealthy excess correlate closely with poverty and poor education. Shops in poor neighbourhoods stock less fresh food (and at higher prices), while fast-food joints proliferate. Poorer people also have fewer parks and playgrounds in which to exercise.

This sounds bad. Yet the food industry is largely giving American consumers (rich and poor) what they want. A pattern of life in which fewer families eat regular meals together, fewer parents remain at home during the day to cook, and increasing amounts of time are spent working or commuting creates demand for convenient, fast food (especially when it is as cheap as it is). Tummy size, then, is largely a side-effect of modern American life—and the choices that Americans make.

That said, there is a debate about how well informed consumers are when they make these choices. Even if you regard the case of the litigious 272lb New Yorker as absurd, America's food industry is particularly powerful and unfettered. In Europe, the most powerful bit of the food-production chain is the one closest to the consumer—the supermarkets. In America, the industry is controlled by food processors. Three facets of the food business are particularly troubling:

•**Misleading information.** Marion Nestle of New York University points out in “Food Politics” (University of California Press, 2002) that blurbs on packaging are highly selective. Breakfast cereals, for instance, come blazoned with information about how their added minerals and vitamins will strengthen young bones; they have less about what the coating of sugar will do to children's teeth and waistlines.

•**Poor regulation.** The power of the food lobby extends to Washington. The agriculture department has a huge conflict of interest. It is responsible both for promoting the interests of farmers and for disseminating nutritional information. The Food and Drug Administration has been restrained by Congress, at the behest of food interests, in its efforts to regulate dietary claims.

•**Schools.** Eating habits formed by children are hard to shake in adulthood: 60% of obese children grow up into obese adults. Fast-food firms often serve as official caterers, while soft-drink firms have installed numerous snack dispensers in schools (especially poor ones), in exchange for providing things like TVs.

Far from representing something new, the current debate about carbohydrates reflects the confusion created when science and marketing mix. While the 1990s fads concentrated on fatty foods and their link to cholesterol, the high-protein dieticians blame starchy carbohydrates. These, they say, produce a rush of sugar in the blood that destabilises the body's regulation of appetite and so lead to overeating.

This does help to explain one mystery of the past 20 years: why “low-fat” food did not work. The low-fat meals that Americans guzzled down were often packed with refined flour and heavily sugared to give them flavour (which the customers also wanted); people who tucked into them kept on wanting to eat more. The food industry did not rush to alert them to this point; nor did its packaging mention the sugar as clearly as the “low fat”.

Yet the more you delve into the issue, the more nuanced it appears. Just as some fatty foods, such as avocados and peanuts, are now thought to protect the heart (not harm it), there are also some sorts of carbohydrates, such as those found in whole grains, that don't encourage appetite. And the newest research seems to imply that people's genetic disposition might matter more than all these things. Variations in the *ap*OE gene, for example, may determine your blood cholesterol level more than your diet. And all that is before you consider things like the amount of exercise people take.

Over the past 25 years or so, Americans have repeatedly jumped at quick-fix solutions for their fast-food habits. In the late 1990s there was a craze for anti-fat drugs, which inevitably led to lawsuits. But in the end nearly all the arguments about food come back to the choices that consumers make.

Americans have got larger because they have chosen (mainly consciously) to eat the way that they do. Millions of them actually eat rather well: these tend to be the richer and better-educated sorts, who go to gyms and buy their vegetables from organic farmers' markets. Their buying power is having an effect: one of the fastest-growing supermarket chains in America is Whole Foods Markets, based in Austin, Texas, which mixes organic vegetables and free-range chicken with a sorcerer's array of vitamin tonics. But, for the moment at least, they are in a clear thin minority.

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Florida's gubernatorial race

Hurricane Janet in a lull?

Aug 29th 2002 | MIAMI
From The Economist print edition

Down but not out, the Democrats may yet give Jeb Bush a run for his money

AP

Winning hearts, but not heads

AFTER the Florida election debacle two years ago, local Democrats could hardly wait to get their revenge on Jeb Bush. But with their own primary approaching on September 10th, Florida's Democrats are deeply divided over how to oust the incumbent governor. Janet Reno, Bill Clinton's attorney-general, was meant to be a shoo-in for the party's nomination. But she now faces a strong challenge from Bill McBride, a Tampa lawyer and decorated war veteran.

Ms Reno has campaigned as the more experienced, grass-roots candidate. Earlier this year she appeared to have all but secured the nomination. But Mr McBride, having won endorsements from several local unions and bigwigs, is catching up. Indeed, his people claim that he now trails Ms Reno by just six points—44% to 38%.

Mr McBride has outstripped Ms Reno in the vital area of fund-raising: he has $1.9m on hand, twice the amount she has. That will give him an important advertising advantage as the campaign enters the home stretch. Another Democratic candidate, Daryl Jones, a state senator, polls a distant third. Meanwhile, Mr Bush is sitting pretty. The governor is ahead in the polls, and has $5.8m in his coffers.

Many Democrats have a familiar problem with Miss Reno: their hearts will her to win, their heads reckon that she will never beat Mr Bush. Even leftish Democrats worry that Miss Reno's liberal image will lose votes, especially in conservative rural areas in the north of the state. Her tenure in the Clinton administration was tainted by her handling of the infamous Waco siege, and by allegations that she was slow to investigate alleged wrongdoings at the White House. She was virtually declared *persona non grata* by Miami Cubans after she ordered the return of Elian Gonzalez, a six-year-old who had travelled to America on a raft, to his father in Cuba.

Mr McBride, by contrast, suffers from a lack of name recognition. Still, Republicans are nervous that his military record and conservative image could have broad appeal. When the Republicans launched their first campaign ads last week, they took aim at Mr McBride, ignoring Ms Reno. The ads questioned his labour credentials, highlighting lay-offs and pay scales at Holland & Knight, the law firm that he headed. Mr McBride wasted no time issuing his own campaign ad, claiming Mr Bush singled him out for attack “because he knows I'd be the toughest Democrat to beat.”

Miss Reno remains undaunted. She has run a gruelling, appealingly down-to-earth campaign, driving around the state in her now-famous red Ford pick-up. She has handled the issue of her Parkinson's disease admirably. A nature-lover who grew up in the Everglades, she also has strong backing from environmentalists.

Whoever wins the primary, Miss Reno and Mr McBride have hinted they might team up afterwards on a joint ticket for governor and lieutenant-governor. Two home-grown Floridians might make an attractive package. This week's televised debate between the three Democrats featured a surprisingly unified and effective assault on Mr Bush's record.

Though elected in 1998 as a self-declared reformer who promised to fix the school system and improve child welfare, Mr Bush is now vulnerable on both counts. Florida has some of the largest and most overcrowded public schools in the country. Most Floridians rank education as the top election issue. Yet

when the state faced a sudden budget shortfall due to the loss of tourism revenue after September 11th, Mr Bush chose to cut education funds rather than repeal corporate tax breaks.

To make matters worse, a judge ruled earlier this month that Mr Bush's solution—school tuition vouchers—violated Florida's constitution, on the grounds that it involved tax dollars going to religious schools. For their part, the three Democrats support an amendment that would devote funds to reducing class sizes, a measure Republicans oppose.

Child-welfare is a sensitive subject for Mr Bush. The state's Department of Children and Families (DCF) is mired in scandal, after it admitted that it couldn't locate 500 children supposedly in its care. Though the problems at the DCF pre-date Mr Bush's election in 1998, his reform promises sound hollow. He looked embarrassingly out of touch when, earlier this month, he appointed Jerry Regier, a religious conservative, as the new head of the DCF, apparently unaware that Mr Regier was the author of an evangelical essay condoning, among other things, vigorous spanking. Mr Bush can expect to hear even more about that after September 10th.

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Lexington

The fading lure of Camelot

Aug 29th 2002
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The pick of the Kennedys is having a tough time in Maryland

THE Kennedy name has lost none of its power to captivate. A display of Jacqueline Kennedy's frocks is attracting packed crowds at the Corcoran in Washington, DC. This year has produced the usual crop of Kennedy books and biopics. But is the Kennedy name losing its power to win elections?

A glance at Maryland, where Kathleen Kennedy Townsend, Robert Kennedy's eldest daughter, is trying to climb the ladder from lieutenant-governor to governor, suggests that it is. The election of KKT, as she is inevitably known, ought to be a cakewalk. Maryland is one of the four most Democratic states in the country: Democrats outnumber Republicans by a margin of two to one. Al Gore carried the state by 57%-40%, an even bigger margin than Bill Clinton managed in 1996. The last Republican to win the governorship was the great Spiro Agnew, back in 1966.

Moreover, KKT is heir to the dynasty's political ambitions, with all the glamour and tragedy that that entails. She has her father's looks (thatched hair and a toothy grin); her family's physical vigour (she once climbed the Matterhorn); and her family's access to Hollywood stars (Martin Sheen has campaigned for her). It is impossible to meet her without reflecting that both her father and her uncle were assassinated. But she also comes across as a sensible and grounded person, a mother of four who has been running for the governorship for the past four years.

And yet her campaign is turning out to be a shambles. The past six months have seen her 15-point lead over Robert Ehrlich, a Republican congressman, dwindle to almost nothing. Her performance has been much less assured than his: stammering and full of malapropisms where he has been smooth and articulate. The fact that he is a local boy made good—he grew up in a row house and made it to Princeton University by dint of his brains and footballing skills—has not escaped the voters. Mrs Townsend has irritated local blacks (who make up 28% of the state's population and most of her party's footsoldiers) by ignoring the claims of several plausible black running-mates in favour of Charles Larson, a white Republican who changed sides just before he was selected. Mr Ehrlich chose a black running-mate.

Mrs Townsend is now scrambling to avoid disaster, hiring a new team to galvanise her campaign and sharpen her polemic. She has also called on the services of Robert Shrum, a veteran Kennedy retainer and specialist in the darker arts of politics. The Democratic National Committee, terrified of losing a safe

governorship, is also stepping in. Come Labour Day, stand by for a torrent of negative ads portraying Mr Ehrlich as a gun-toting Gingrichite who wants to bring back slavery.

This fusillade will probably be enough to save Mrs Townsend. But the very fact that she has stumbled in what should have been an easy race has badly tarnished her reputation. A year ago people were talking about her as a future Democratic star, perhaps even a vice-president. (Mr Clinton speculated that one day he would be “knocking on doors for her when she's running for national office”.) Now the golden girl is damaged goods—a problem that the Democratic establishment is desperately trying to solve.

The limits of dynasty

Stephen Hess, a political scientist at the Brookings Institution, points out that membership of a political dynasty buys you one step up the political ladder; whether you reach the next step depends on your own abilities. American political history is littered with the sprigs of political dynasties—including three of FDR's sons—who have made it to the first step and then faded.

Mrs Townsend is discovering that a famous name cannot trump local issues. The Maryland voters are dissatisfied with the party that has been in power for more than 30 years. They are angry with the current governor, Parris Glendening, for his haughty style and zigzagging policies. And they are cross with Mrs Townsend for making a hash of her job as crime tsar. Many of her once-praised schemes seem to have crumbled to dust. The *Baltimore Sun* revealed that the juvenile boot-camps that she championed had degenerated into arenas for sadistic beatings, rampant drug use and skyrocketing recidivism. A federal probe is examining whether Mrs Townsend diverted federal money from crime fighting to political campaigning.

The Townsend campaign is also discovering that a famous name cannot make up for lack of personal charisma. Mrs Townsend is not a bad politician: well-informed, tactile and surprisingly nice. But she's just a little bit on the dull side. She gives the distinct impression that she's going through the motions of building a political career—that she's moved by her sense of duty rather than by any real passion.

The Kennedy magic seems to work best when ambition comes wrapped with a bit of roguery. JFK was an obsessive womaniser. RFK was always embroiled in some feud or other. But the rising generation of Kennedys seem to have lost the ability to combine these two qualities. Most of KKT's brothers and cousins have had too much roguery for their own good. Brother Joe abandoned his race for the governorship of Massachusetts amid a messy row with his first wife. Cousin Patrick is struggling to keep his Rhode Island seat because of his habit of getting into public fights. Mrs Townsend, whose nicknames include “clean Kathleen” and “the nun”, has too little of it.

It would be a mistake to write off the Kennedys. They have mastered the first art of survival for a political dynasty: having lots and lots of children. You get a sense of the sheer force of their numbers when you realise that Mrs Townsend is not the only clan member running in Maryland: her cousin, Mark Shriver, is trying to get into Congress. One day the combination of genes and local political circumstances will come together to produce another stellar career. But Kennedy-watchers who have hitched their dreams on Mrs Townsend need to think again.

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Mexico's economy

With Latin America heading south, Mexico turns its horses north

Aug 29th 2002 | MEXICO CITY
From The Economist print edition

Getty

It has avoided “contagion”. But for Mexico to prosper, its government needs to ram through far-reaching economic reforms

Get article background

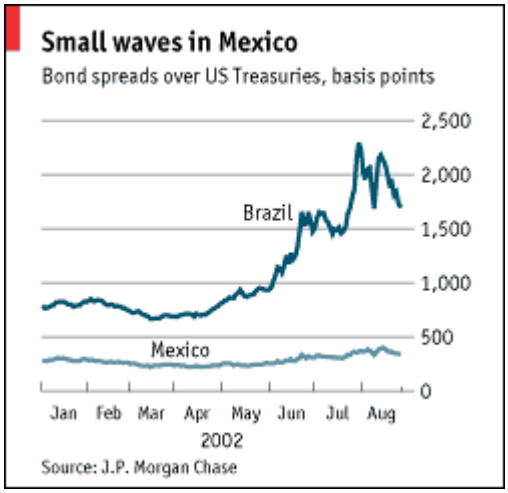
ONLY a few years ago, Mexico could be counted on to be at the forefront of any Latin American economic crisis. Yet this year, as Argentina's economic collapse and Brazil's financial panic spread gloom across South America, Mexico has barely been scratched. Indeed, there is much talk of Mexico having ceased to be a Latin American economy at all, thanks to its links with the United States through the North American Free-Trade Agreement (NAFTA). But even if that is true, therein lies a new set of challenges for the government of President Vicente Fox.

Mexico has not been entirely unscathed by the turmoil to its south. Its peso lost 10% of its value between April and June, though it has since stabilised. Since April, the risk premium demanded by investors for holding the country's bonds has risen by around 50%, though it remains far lower than in Brazil's case (see chart). This has increased the cost of borrowing for Mexican companies. The rise also reflects worries about a “double-dip” recession in the United States. Though NAFTA helps shield Mexico from Latin American problems, it increases its dependency on its northern neighbour, which takes 89% of its exports. Were the value of Mexican bonds to fall much further, this would call into question the country's “investment-grade” credit rating, which allows American pension funds to invest in the country's assets.

However, there are good reasons to think that Mexico will continue to pass between the raindrops of the latest Latin American storm. Mr Fox's government has kept to the strict fiscal and monetary policies it inherited from its predecessor. Despite the weaker peso, inflation and interest rates are low. The public debt is well managed. Mexico's achievement, says Victor Herrera of Standard & Poor's, a rating agency, is to have created an economy that is sound enough to insulate its credit rating from temporary turbulence or the business cycle.

This freedom from financial upsets should, in turn, ease Mexico's recovery from a recession triggered by the slowdown in the United States. The latest figures showed that GDP grew by 2.1% in the second quarter compared with the same period last year. While foreign direct investment (ie, in businesses or factories, not

financial assets) has slowed in South America, it remains buoyant in Mexico. Last week, HSBC, a British bank, announced that it was buying Grupo Financiero Bital, one of the last remaining Mexican banks in local hands, for $1.14 billion.



For all that, Mexico's economy suffers from structural weaknesses which Mr Fox has so far been unable or unwilling to address. One challenge concerns the public finances. The central-government budget deficit is 0.65% of GDP, but the figure for the public sector as a whole is almost 4%. Moreover, there is pressure to spend more. Mr Fox has begun to offer subsidies to special interests, such as farmers and the textile industry. Although the government persuaded the opposition-controlled Congress to approve some tax increases last year, it remains dangerously dependent on volatile oil revenues. These account for 37% of the federal government's revenue.

An even bigger challenge has to do with the lack of competitiveness of many of the country's businesses. After 1994's traumatic devaluation rocked the banks, the government allowed a foreign takeover of much of the banking system. But many other business sectors are still tightly controlled by the state or remain private near-monopolies.

In the 1990s, economic growth was led by the expansion of *maquiladoras*, the assembly plants that line the border with the United States. Some of these have now moved deeper south. But as wages rise in Mexico, others have decamped to China. Nobody now expects the *maquiladoras* to match their spectacular growth of the past.

The government hopes that future growth will come from a combination of exports and the local market. But for business to remain competitive at higher wage rates, reforms of energy, the labour market and competition policy are all vital. Luis Ernesto Derbez, the economy minister, argues that the government's macro reforms have reduced the risk of investing in Mexico, and that the task now is to push through the micro reforms that will reduce the cost of investing. But he says that these changes could take a decade to implement.

Mr Fox has now sent a long-awaited electricity-reform bill to Congress. This proposes to change the constitution to allow private generating firms to sell power directly to large consumers. The bill faces vehement opposition from the trade unions and will spark a storm in the new session of Congress, which starts on September 2nd. If the government is to get its way, even partially, it will need to show greater acumen in deal-making than it has so far revealed.

In office for almost two years, Mr Fox can reasonably blame Mexico's recession on the outside world, while taking credit for cushioning his country from South American contagion. But from now on, Mexico's chances of leaving its southern neighbours behind will depend on its president's ability to rally political support for economic modernisation.

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Politics in Venezuela

Poor, but fervently loyal

Aug 29th 2002 | CARACAS
From The Economist print edition

Why an inept president is still surprisingly popular

Get article background

AP

The masochistic cult of Saint Hugo, patron of coups

“LOVE with hunger doesn't last.” So runs a Venezuelan proverb. But Hugo Chavez, the country's president, is setting out to challenge folk wisdom. Mr Chavez won the presidency in 1998—and again two years later, under a new constitution—by promising a “Bolivarian revolution”. This, he vowed, would bring social justice and put an end to corruption and economic decline. Now, the economy is shrinking fast, inflation is rising, and Venezuela faces growing political violence, including a failed coup against Mr Chavez in April. Even so, he remains surprisingly popular. Most polls give him 30-35% support—down from twice that two years ago, but still more than any of his opponents or some of his South American counterparts.

What makes this odder is that the president's support is concentrated among the poor—whose numbers are rising steeply, and who are getting poorer. According to Pedro Luis España, a poverty expert at the Andres Bello Catholic University in Caracas, the number of Venezuelans unable to cover basic needs has risen by 15%, to more than 60%, in the past three years. After initially falling, the numbers in “extreme poverty” have also increased over this period. This year will see a further “spectacular” rise in poverty, Mr España predicts. Venezuela's GDP will decline by 6.3% this year, forecasts LatinSource, a New York-based consultancy. Unemployment is 15% and rising. Business organisations say 400,000 jobs were lost between January and June. Since Mr Chavez has so signally failed his core constituency, what accounts for their continued loyalty?

“Before Chavez,” says an unemployed secretary, “I had to pay 60,000 bolivares [then about $110] in school fees for my daughter. And if you went for a medical consultation they charged you. The president came along and said health and education should be free.” By abolishing fees in public schools, Mr Chavez increased enrolment by 600,000. He initially doubled the health budget, though he has since been forced into spending cuts. Vaccination programmes have expanded, while infant mortality and malnutrition began to fall (though may now rise again). “Bolivarian markets”, run at first by the army and now by locals, have cut the cost of staple items to the poor. The “Bolivarian Circles”, seen by the opposition as an embryonic popular militia, act as a kind of social service to those in need. In the countryside, the promise of land redistribution under a controversial agrarian reform law keeps hopes alive.

But given the economy's problems, none of this might count for much were it not that Mr Chavez has become the object of quasi-religious veneration. His supporters often say that he was “sent by God” and is the only hope for the poor. “Nothing and no one can touch him. He's the saviour of Latin America and part of the rest of the world,” says Juancho Gonzalez, a retired radio journalist and devoted follower of the president.

Commentators from both sides of Venezuela's bitter political divide agree that Mr Chavez, who is a *mestizo* (of mixed race) of modest provincial origins, speaks a language the poor can understand. They see him as one of themselves. “He's the only president who's ever visited the slums where the opposition says only muggers live,” says Angelica Gil, an unemployed housewife. “We'll continue to support him no matter what, even if we have to go hungry.”

Mrs Gil was sitting at an open-air office set up by the Bolivarian Circles. Behind her hung a copy of a naive-style painting often seen at pro-Chavez rallies. It shows the president on his knees in the jail cell where he was held after staging a failed coup (when a paratroop lieutenant-colonel) against a democratic government in 1992. From the clouds above, Simon Bolivar, Venezuela's independence hero, hands him down a sword, while angels look on. In an accompanying text, the painter describes how this scene appeared to him in a dream. For richer Venezuelans, the dream is, at best, a confidence trick. Many of the poor still cling to it despite their darkening economic nightmare.

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Brazil's presidential election

On the attack

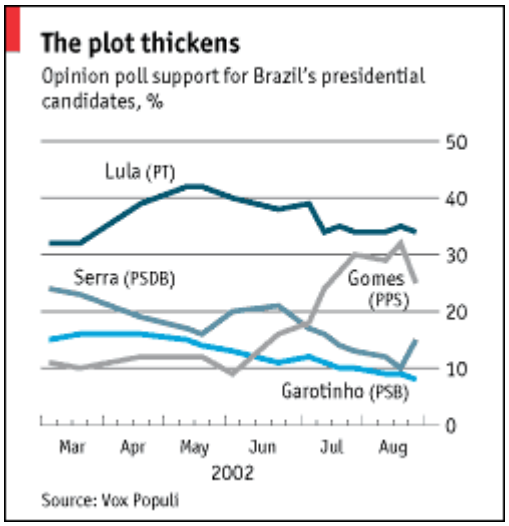
Aug 29th 2002 | SAO PAULO
From The Economist print edition

The battle for the centre turns negative

Get article background

HAVING slipped to a distant third place in the opinion polls, with his campaign on the brink of collapse, Jose Serra, the presidential candidate of Brazil's governing centre-right alliance in October's election, chose a risky strategy when the candidates' free daily campaign slots on television and radio began last week. He launched all-out attacks on Ciro Gomes, the populist candidate in second place. To highlight Mr Gomes's hot temper, for example, Mr Serra replayed a clip of a radio phone-in, in which Mr Gomes called a listener an "idiot". It seemed to do the trick: this week's polls show that while Luiz Inacio Lula da Silva of the left-wing Workers' Party remains well ahead, some respondents have switched from Mr Gomes to Mr Serra (see chart).

Attack ads aside, the campaign has become a stampede to the political middle ground. That is partly a reaction to recent financial turmoil—and partly because while voters may want change, they distrust extremism. In meetings with President Fernando Henrique Cardoso last week, both Mr Gomes and Mr da Silva stopped short of formally endorsing a new $30 billion IMF loan agreement, but made reassuring noises about maintaining fiscal discipline and low inflation, as the accord requires. For his part, Mr Serra, the most pro-market candidate, promises more jobs.



Mr da Silva, a bearded former trade-union leader, is making increasingly convincing efforts at moderation. While his opponents scrap, he stays above the fray—the candidate of "love and peace'' as he puts it. This week he won the backing of Jose Sarney, a conservative former president.

By contrast, Mr Gomes looks inconsistent. Having recently said that he "couldn't care less about the markets", he then named Jose Scheinkman, a noted free-market economist, as an adviser. This, and his cosying up to some of the conservative oligarchs he claims to oppose, are causing disquiet among leaders of his soft-left Popular Socialists.

The campaign's more centrist tone, and Mr Serra's signs of life, have helped to steady financial markets. Brazil's currency, the *real*, and its bonds, have strengthened over the past fortnight. And at a meeting in New York this week, international bankers agreed not to make further cuts in their credit lines to Brazil. Meanwhile, new figures showed that Brazil's weakened currency is helping its trade balance. The government now hopes for a surplus this year of $7 billion, up from last year's $2.6 billion.

All of this should assuage fears of a default on Brazil's public debt. But investors remain nervous: the Central Bank was this week unable to roll over a batch of dollar-linked bonds at acceptable interest rates. The nerves may only be calmed if and when Mr Serra begins to look capable of beating not just Mr Gomes but Mr da Silva. Mr Serra, because of his broader alliance, is entitled to as much free media time as both his main rivals combined. But he still faces a challenging task.

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The Arctic

Warming up

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From The Economist print edition

The Inuit launch new campaigns

FOR the 150,000 Inuit who live in four countries around the Arctic rim, the warming of one of the world's coldest places is making a life of hunting seal and caribou and herding reindeer more arduous. Melting ice and permafrost restrict access to hunting grounds. Indeed, the Arctic's sensitivity to rising temperatures makes it the “canary down the mine” of climate change, says Sheila Watt-Cloutier, the newly elected president of the Inuit Circumpolar Conference (ICC).

The Inuit (also known as Eskimos) are split roughly evenly between Greenland (where they have home rule), Canada (where they control Nunavut province) and Alaska (where they are less organised), with half a dozen villages in Siberia. Every four years, Inuit leaders from all four countries meet at the ICC general assembly. At the latest, held this month in Kuujjuaq in north-eastern Quebec, they decided to make promoting the Kyoto protocol on climate change their priority.

Canada has large oil and car industries, and has hitherto been sceptical about Kyoto. But opinion is now moving towards ratification, pushed in part by the Inuit. At a recent meeting of Canada's provincial premiers, Nunavut's Paul Okalik led the arguments in favour.

In Canada, the Inuit have proven clout. A group led by Ms Watt-Cloutier pushed hard for an international agreement to ban a dozen persistent organic pollutants (such as some pesticides and industrial chemicals), approved as the Stockholm Convention in May last year. Carried north by prevailing winds, these pollutants do not evaporate in the Arctic cold. They have infected the meat and berries that are staples of the Inuit diet. The milk of nursing mothers in the Arctic has been found to contain up to eight times as much of these pollutants as that of women tested in Copenhagen, Toronto or Moscow. Unusually, Canada's cabinet ratified the convention immediately after signature.

Ms Watt-Cloutier is now pushing Canada's government to assert its sovereignty over the waters of the Arctic archipelago, which the United States has never acknowledged. The Defence Ministry has yet to order the powerful ice-breaker promised in the 1980s after an American supertanker crashed uninvited through the Northwest Passage. The Liberal government cancelled as too expensive its predecessor's plans to buy nuclear submarines, so Canada has no under-ice monitoring system. Two coastal patrol craft made a brief journey this summer—no match for any lurking foreign submarines.

For all their successes, the Inuit are weakened by their dispersal between countries. Their dialect varies and they have three different scripts. The ICC's language commission wants all to adopt the Roman script. The Inuit language is disappearing in western Canada, as well as in Chukotka, in Siberia. Since news tends to stop at national boundaries, they also want to link up Inuit radio stations in Greenland and Canada. Then they might make even more noise.

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November could be chilly

China's leadership quarrel

Aug 29th 2002 | BEIJING
From The Economist print edition

Reuters

Graven images, Mao, Deng (left) and Jiang, followed by...?

IN AN unusually important but typically bland announcement on August 25th, China ended months of uncertainty by naming the date for the start of its 16th Communist Party Congress. Held only every five years, the congress is where the party's (and thus the country's) top leaders are formally selected, and where broad new policy proposals are launched. The sessions are usually held in September or October, and the delay in planning this year's event gave rise to speculation, among citizens and analysts alike, about infighting at the highest levels of Chinese politics. Now everyone can mark their diaries: the session will begin on November 8th and, state television assures, “all preparatory work for the congress is progressing smoothly at present”.

The suspense, however, is far from over, as little is yet known about who will be staying or going. There had been for years an implicit understanding that the party chief, Jiang Zemin, would use the 16th congress to step aside gracefully and make way for a man long ago anointed as his successor, Hu Jintao, vice-president and fellow member of the Politburo Standing Committee. Indeed, having reached the age of 76 and after serving for 13 years as China's top leader, Mr Jiang is at the point where many politicians would start gathering their papers and scouting out book contracts for their memoirs.

Instead, Mr Jiang appears to be scouting around for ways to hang on to power. He holds three posts: state president, head of the Communist Party and chairman of the Central Military Commission, which in effect makes him commander-in-chief of the armed forces. He will have little choice but to give up the presidency early next year, since he will by then have served the maximum of two five-year terms specified by China's constitution. Keeping his military job will be easier. His predecessor as paramount leader, Deng Xiaoping, held on to that job for more than two years after leaving all his other posts, and finally gave up his de facto leading role in Chinese politics only when disabled by old age and senility. However much Mr Hu and the other up-and-coming leaders would prefer Mr Jiang to step aside entirely, the precedent set by Deng will make it hard to object if Mr Jiang follows suit, especially since it was Deng who elevated Mr Hu into the party's top tier.

The key question concerns the party job, which Mr Jiang had been expected to yield to the 59-year-old Mr Hu, in order to comply with an unofficial but widely publicised prohibition on renewing the terms of leaders above 70 years of age. By allowing Mr Hu to meet visiting top-ranking foreign dignitaries and make high-profile official trips to Europe, Asia and the United States, Mr Jiang appeared to be grooming him for the expected promotion. But at the same time, Mr Jiang has refrained from making any public commitment to standing down. On the contrary, he has in recent months been orchestrating, or at least tolerating, a series of letter-writing campaigns within the bureaucracy aimed at building support for a

“Keep Jiang” movement. State-run media, which are mostly under his control, have also been singing Mr Jiang's praises in what looks like an effort to portray him as indispensable.

But others have been writing as well, and in decidedly contrary tones. Bao Tong, a former official who was the highest-ranking figure to be jailed for supporting the 1989 Tiananmen Square protest movement, this week released a stinging essay attacking the “three represents” concept put forth two years ago by Mr Jiang to help keep the party in tune with China's fast-changing social and economic landscape. Mr Jiang calls on the party to represent “advanced productive forces”, “advanced culture” and “the broad interests of the public”. According to party sources, Mr Jiang hopes to insert the “three represents” into the party constitution at the forthcoming congress; he may also seek to put it into practice by allowing wealthy private businessmen—undeniably the leaders of China's “advanced productive forces”—to hold high-level party posts.

In his essay, Mr Bao, who was a leader of the liberal reform faction that was purged after the turmoil of 1989, writes that the party represents only its own interests, and offers nothing to China's peasants and workers who were promised the moon in 1949 when the Communists came to power. Speaking on the phone from his Beijing home, where he lives under constant surveillance, Mr Bao urged that Mr Jiang should step aside entirely. He rubbished the notion that Mr Jiang should stay on for the sake of stability. “If China's stability actually depends on any single person, then the situation must be very dangerous already, and very tragic.”

Of course, the possibility remains that Mr Jiang intends to step down after all. Some analysts suggest the congress has been delayed so that Mr Jiang would remain the nominal top leader when he makes his proposed visit to George Bush's Texas ranch in late October. He may also be withholding his decision to retire as a bargaining chip to elevate his chief protégé, Zeng Qinghong, to a place in the Politburo. Mr Zeng is hugely unpopular within the party. David Bachman, an American China expert, says that if Mr Jiang stays on, or merely succeeds in elevating Mr Zeng against the opposition of virtually every other top leader, the result will be instability among the political elite deprived of orderly succession. But if Mr Hu is allowed to move up as planned, it will demonstrate a level of political maturity that the West should give it credit for. That may serve as a more profound political legacy for Mr Jiang than the “three represents”.

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India and Pakistan

A war in waiting

Aug 29th 2002 | DELHI
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Looking beyond October

Get article background

WHEN Richard Armitage, the United States deputy secretary of state, visited India and Pakistan at the end of last week, he said that tensions between the two nuclear powers had “eased”. But L.K. Advani, India's deputy prime minister, was reported as saying at the same time in London that “we are at war”; and this week Yashwant Sinha, India's foreign minister, refused to agree with Mr Armitage's assessment. So is there a risk of returning to the situation of May, when there was a widely perceived risk of war?

Militarily, the situation remains grim. Hundreds of thousands of troops are mobilised on the border between the two countries in a stand-off that started eight months ago, after a terrorist attack on the Indian Parliament. There is shooting across the UN-negotiated “line of control” (the de facto border in Kashmir) almost every day, and Pakistan accused India during Mr Armitage's visit of bombing one of its army posts high in the Ladakh range of the Himalayas (which India denied). Meanwhile, India accuses Pakistan of continuing to send and support infiltrators who cross the border to commit terrorist attacks in Indian Kashmir, despite pledges by Pakistan's president, General Pervez Musharraf, that this would be stopped.

The short answer however is that, barring a major Pakistan-aided terrorist attack, there is no likelihood of a war, nor of any escalation of hostilities, before elections take place in India's state of Jammu & Kashmir between mid-September and early October. India wants to keep the run-up to the polls as peaceful as possible in order to encourage a reasonable number of people to vote. If the polls are not disrupted by Pakistan-aided militants, India is expected to withdraw some of its troops from the border and it may also agree to peace talks with Pakistan.

It would probably also make its first real attempt for many years to deal with Kashmir's internal problems, notably by discussing the transfer of some central-government powers to the state. But if there is widespread disruption, the government would come under heavy political pressure to take military action across the border.

General Musharraf will be aware of India's hopes. But he has his own parliamentary elections in October and cannot be seen to be going soft on India. He does not want the Kashmir elections to be peaceful and lead to the constructive domestic moves by India that might follow. So Indian analysts believe that the risk of Pakistan-aided disruption is high. There are reports in Kashmir that infiltration across the border has increased in recent weeks, though it remains much lower than earlier this year.

Mr Armitage could therefore reasonably claim in Islamabad that “clearly the tensions and the rhetoric are somewhat down at present”, an assessment that enabled him to praise General Musharraf and secure his continued support for America's primary aim of pursuing al-Qaeda in Pakistan. But for Mr Advani and Mr Sinha, India is in a war, although, as Mr Advani said in London, a war against infiltration and terrorism, not, at least for the present, the sort of war that the countries fought in 1965 and 1971.

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Afghanistan

How to rebuild a country

Aug 29th 2002
From The Economist print edition

New thinking by the Americans?

WHILE the United States is mulling over what to do with Iraq, Afghanistan provides a case study of the difficulties of providing a stable alternative to an undesirable regime—and how much the Americans are willing to contribute to the messy business of reconstruction. After appearing to be interested primarily in hunting down the last of the Taliban and al-Qaeda, are American defence officials now warming to the idea of so-called nation-building?

Donald Rumsfeld, the American secretary of defence, said this month that the real problem in Afghanistan was not security but the fact that not enough aid was being delivered to Hamid Karzai's government. He said American troops would now focus less on security and more on civil work. In an interview with Britain's *Daily Telegraph* this week, Paul Wolfowitz, Mr Rumsfeld's deputy, said there were now no large concentrations of al-Qaeda forces in Afghanistan and that he thought America's focus was shifting to training the Afghan national army, and supporting the International Security Assistance Force (ISAF) and reconstruction efforts.

You cannot reconstruct without money. Mr Wolfowitz, like his boss, is no doubt worried about the lack of it arriving in Kabul. According to Kofi Annan, the UN secretary-general, lack of money is undermining the government's efforts to provide basic services and extend its authority beyond Kabul. In January, various countries promised to provide $4.5 billion for the reconstruction of Afghanistan, $1.8 billion of which was supposed to be disbursed this year. But according to Abdullah Abdullah, Afghanistan's foreign minister, about 80% of the aid received so far has been for humanitarian work and very little for reconstruction. And although international agencies work closely with the government, little money is going to the government itself. The Afghanistan Reconstruction Trust Fund, managed by the World Bank, is supposed to help the government cover its $460m current budget but had received less than $70m by the beginning of August.

The United States, anyway, has been generous. It has pledged $297m for reconstruction in Afghanistan this year, the bulk of which is being channelled through the State Department's international-development agency. America is by far the largest contributor to a UN appeal for Afghanistan, half of which covers humanitarian matters.

If the Americans are to be faulted it may be that they are complacent over security. Compared with the past 23 years of civil war, security may indeed have taken a turn for the better, but Afghanistan is hardly a haven of peace. It has proved difficult to hunt down the remnants of the old regime. The latest coalition operation, dubbed Mountain Sweep, which ended on August 25th, has produced little more than the usual bounty of weapon caches. There are regular rumours that Mullah Omar and Osama bin Laden may still be alive. Mr Abdullah says he believes Mr bin Laden to be alive and kicking in Pakistan. Warlords compete for power. Two Afghan ministers have been shot dead recently.

The ISAF, whose mandate expires in December, is restricted to Kabul. In March, when the renewal of the previous mandate was discussed in the UN Security Council, James Cunningham, an American envoy, made it clear that his country did not see the need for an expansion beyond the capital. It may now be that the United States, which does not contribute troops but provides logistical support, is no longer against an expansion in the force's scope and size.

Even so, serious obstacles would remain. Most countries are unwilling to provide more troops. Turkey agreed to take over the leadership of the force from Britain on condition the mandate would be limited to Kabul and with promises of money. According to Mr Wolfowitz, finding someone to take over when the Turks leave in December is no easy task. The case study of reconstructing a country is coming up with

many far-from-easy tasks.

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New Zealand

From Brash to Bollard

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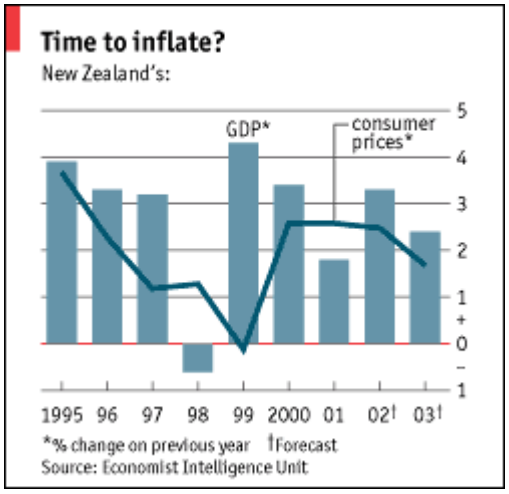
A new man for the bank



IN ITS most important decision since winning re-election in July, New Zealand's government has chosen Alan Bollard as the next governor of the central bank. He replaces Don Brash, who for 14 years fought the beast of inflation and brought it to its knees. New Zealand's economy, ranked sixth in income per person in the OECD in 1970, had been so battered by inflation in the 1970s and early 1980s that it had slipped towards the bottom of the table by the time Mr Brash took over.

Yet successful though he was, the country still lagged economically. Australia's average growth in 1990-2000 was 4.1%, compared with New Zealand's 3%. So what was New Zealand doing wrong? One theory was that Mr Brash was over-vigilant about inflation, squeezing not just inflation but the economy. Every time economic growth was heading past 3%, he slammed on the monetary brakes: as he saw it, the country's resources were at full stretch and inflationary pressures were building dangerously.

The finance minister, Michael Cullen, wanted New Zealand to follow the more relaxed strategy of Australia's central bank. The Labour government said it aimed to return New Zealand to the top half of the OECD rankings, raising output per person from something like $13,000 to $20,000, Australia's current level, a task that could take years, even based on real growth of 4% a year. Mr Brash, believing that the government was fooling itself, quit his job at the bank and joined the opposition National Party, which crashed to its worst defeat in the general election on July 27th. Mr Brash, though, was elected to Parliament and is the party's finance spokesman. Now Mr Bollard, a public servant who writes novels (unpublished) and likes inventing board games (yet to become popular), jumps from being the government's chief economic adviser as treasury secretary, to the role of the economy's conscience as the central bank's governor.

Economists have been noting Mr Bollard's eagerness to push monetary policy more into line with that of the Australian central bank (which is directed to keep inflation within a 2-3% band). They believe he will go for a little inflation, getting the government to agree to raise the present target band of 0-3%. He has to proceed cautiously, so as not to frighten the markets.

Mr Brash says any relaxation of the target band would be only a cosmetic change. He may have a point. More ruthless action may be needed to boost New Zealand's low productivity. That would call for more than just a culture change at the bank.

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Philippines

The hornets are disturbed

Aug 29th 2002 | MANILA
From The Economist print edition

Surprise decision by the United States

Get article background

THE Communist Party of the Philippines and its guerrilla arm, the New People's Army, are a relic of the time when Maoism was a threat in Asia. In the Philippines it isn't, much. These days the guerrillas appear to be inspired less by Maoist ideology than by the collection of “revolutionary taxes”, which is their main occupation. In other words, they run an extortion racket, and the money goes into their own pockets. This month, to the surprise of many in the Philippines, the United States branded as terrorists the Communist Party and its guerrillas. The belligerent reaction of the party leaders suggested that the American action might breathe new life into their feckless Maoist revolution.

The party's chief peace negotiator, Luis Jalandoni, who is in exile in the Netherlands, said a resumption of peace talks with the Philippine government would be subjected to “indefinite study”. A Communist spokesman in the Philippines threatened guerrilla attacks on American targets in the country. The United States has begun providing money, equipment and training to the Philippine armed forces for their campaign against the Abu Sayyaf, a group of a few dozen armed Filipino Muslim kidnappers. The Abu Sayyaf has also been named by the United States as a terrorist organisation, because it once had links with Osama bin Laden.

The Philippine armed forces could use the American military aid in their operations against the Communists. But the Philippine government ridicules the notion that the New People's Army, estimated by the armed forces to number about 11,000, could ever take power by force of arms. It remains hopeful for a peace agreement. This might still leave the guerrillas armed and collecting “revolutionary taxes” in the wilder parts of the Philippines. But once their leaders have made peace, the guerrillas will become simply a criminal problem, rather than a political one.

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Malaysia

Threat of the cane

Aug 29th 2002
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Immigrant workers are needed, but no longer wanted

SINCE an amendment to Malaysia's immigration laws came into force this month, illegal immigrants are being handled with a severity that has drawn protests from neighbouring states. The amendment says that foreign workers without permits, and anyone who employs or harbours them, may be fined up to 10,000 Malaysian dollars ($2,600), imprisoned for five years and given up to six strokes of a rattan cane. When the amendment was adopted in April a grace period of four months was given to allow illegal immigrants to leave the country. About 300,000, half the estimated number of illegals, have left.

Now the crackdown has begun. On August 10th, seven men, five Indonesians and two Bangladeshis, were jailed and caned after being found without work permits; many more await prosecution. Other illegal workers and their families are being herded into detention centres for deportation, and at least three Filipino children are reported to have died as a result of unhygienic conditions in camps in the eastern state of Sabah.

On August 26th, after stories of the clampdown reached Indonesia, around 40 protesters in Jakarta burned the Malaysian flag and tried to break into the Malaysian embassy. Next day, the Philippine foreign secretary, Blas Ople, complained that, though his country did not expect “Hilton-standard treatment” for its nationals, conditions in detention centres were too harsh. The two countries say they do not have the resources to accommodate the homecomers: 200,000 have arrived in Indonesia, and 64,000 in the Philippines. At least 17 people have died while stranded in an overcrowded and unsanitary camp in Indonesia's East Kalimantan province, which the Indonesian Red Cross says holds around 17,000 of the expelled.

In Malaysia employers are saying that mass deportations will damage the economy. The country has long relied on foreign workers to do jobs that locals refuse. Unions estimate that 70% of unskilled building workers are Indonesian. Human-rights groups say that the government's campaign against illegal immigration fails to deal with associated issues such as human trafficking by agents and employers, and the trade in fake documents.

The Malaysian government sees the crackdown on cheap foreign labour as part of a move to promote more capital-intensive industry, and to protect jobs for locals. It claims that illegal immigrants are responsible for the rising crime rate and pose a security risk. Given that many voters appear to share the government's view, the crackdown on immigrants is likely to prove politically expedient, whatever its economic costs.

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Traffic in children

The camel jockeys of Arabia

Aug 29th 2002
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Smuggled from Pakistan and Bangladesh

FOR Shabir and Mustafa, both eight years old, their camel riding days are over. Abducted from Pakistan a few years ago, they were smuggled to the United Arab Emirates (UAE) to become camel jockeys. Last month, they were rescued by the Ansar Burney Welfare Trust, a Pakistani NGO, which is now trying to find their parents. Many more are not so lucky: according to the trust, 30 boys—most of them under ten—are being kidnapped in Pakistan every month. A Dhaka-based NGO estimates that over 1,600 Bangladeshi children have been smuggled to the UAE during the past decade to ride camels.

EPA

Uneasy rider

This may now change. The UAE has finally decided to respect a long-ignored law, passed in 1993, which bans the use of jockeys under 15 and weighing less than 45kg (100lb). The Emirates Camel Racing Federation said it would implement the rule from September 1st, in time for the racing season starting in October. Offenders will face a fine of 20,000 dirham ($5,450) for a first offence, with jail for repeated offences. Airports and ports are on alert to spot South Asian boys being smuggled in.

Young South Asian boys, sold for as little as $75, are riders of choice for this popular sport. Many are deprived of food and sleep, to keep their weight down. Tiny jockeys, some less than five years old, are strapped to their mounts to avoid deadly falls, but accidents are common. Human-rights organisations, such as Anti-Slavery, have been complaining for years about the practice. The government of Bangladesh has asked the International Organisation for Migration (IOM) to help send victims home.

Repatriation, however, is only the beginning. According to IOM, the hardest part is to reintegrate these young boys who, like Shabir and Mustafa, may have forgotten their families and mother tongue after years in the Gulf.

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War and peace in Sudan

A merciless battle for Sudan's oil

Aug 29th 2002 | MAYEN JUR, SUDAN
From The Economist print edition

Sven Torfinn

While politicians talk peace, the fighting intensifies

Get article background

AS THE battle starts, mortars, grenades and machinegun bullets rip into a column of 1,200 government troops. Clouds of white smoke and panicked birds billow and flutter. Standing under a thorn tree with Peter Gadeat, the rebel commander, your correspondent was observing a set-piece slaughter in the Sudanese savannah, another day of death in Africa's largest country, and its longest war.

The government's men advance at a rush. When they are less than 100 yards away, 3,000 rebel fighters rise up from the grass, and the serious killing begins. From 30 yards, they spray each other with submachineguns. They shoot wildly; unsurprisingly, since many are children. But within half an hour, the government's soldiers—black militiamen in the pay of Sudan's Arab regime—are fleeing.

The rebels' losses are light: around 30 killed and 100 badly wounded. The government's losses are much heavier, but impossible to count. Knowing they can expect no mercy, the wounded drag themselves silently into the elephant grass to die. One 15-year-old leans in a daze on a stick of bamboo, bubbles of blood bursting from his side. As he breathes, he moans involuntarily: his lungs are punctured. He cannot walk, and the nearest doctor is hundreds of miles away.

As this battle took place, in the remote Western Upper Nile region on August 21st, Sudan's government and rebel leaders were sitting down together in Kenya for another round of peace talks. Their task is not easy. Sudan has been at war for half a century, with a pause between 1972 and 1983. The government in Khartoum is dominated by Muslim Arabs from northern Sudan. It is fundamentalist, autocratic and widely detested. The rebels of the Sudan People's Liberation Army (SPLA) are black Africans, mainly pagans and Christians, who have long craved independence from faraway Khartoum.

To inflame matters further, there is oil under Sudan, mainly in the south. The deposits are largely unexplored, but probably copious. With debts of $17 billion, the government needs the oil. So long as the rebels control the south, it can hardly touch it. If the south were to secede, it would lose it altogether.

Despite these obstacles, astonishing progress has been made. After talks in July, the government promised southerners exemption from Islamic law and eventual self-determination. Negotiators are now trying to work out a power-sharing formula for a six-year transitional period. Both parties predict that they will soon reach a durable peace agreement.

Meanwhile, the government is trying to grab as many oilfields as it can, and the SPLA is trying to stop them. Hence the fighting in Western Upper Nile, an oil-rich zone on the border between the north and the south, controlled by the rebels, but claimed by both sides. Its inhabitants are poor, black and non-Muslim. Because they live above oil, the government wants them out. It flattens villages of pointy grass huts with high-flying bombers, attacks civilians with helicopter gunships and sends its militias to steal their cattle and children. Once the civilians have fled, it bans aid agencies from sending food aid to the area; and then assures foreign oil firms that their concessions are beneath uninhabited land.

Last week's SPLA victory was a riposte to the latest government atrocities. On July 27th—a week after the preliminary peace agreement was reached in Kenya—government militias, backed by helicopters, routed the SPLA and drove roughly 100,000 civilians from Western Upper Nile. The fugitives tell harrowing tales. One seven-foot tribesman, who points with his spear to a septic bullet wound in his leg, says that three of his neighbours were murdered, and one of his wives stolen. A 16-year-old girl describes watching her father drown after he was chased into a river by a helicopter gunship.

By the end of 2003, oil production will have risen by 35%, according to an estimate published this week by the *Middle East Economic Survey*. Oil money enables the government to buy more high-tech weapons, and depopulate more oil areas.

But the regime has two problems. First, its actions keep it diplomatically isolated, and its links to groups such as Hamas in Palestine and Hizbullah in Lebanon (it is not linked to al-Qaeda) anger America. Second, no matter how often its men are defeated, the SPLA shows few signs of giving up. Suffering seems to toughen the southerners' resolve. “We are grateful for the mosquito nets you white people bring,” says an elderly fugitive. “But what we really need are bigger guns.”

Successive Arab administrations have tried to pacify the south, by promising various degrees of autonomy. But these promises have always been broken. This time, the government has offered a vice-presidency to the SPLA's leader, John Garang. But the SPLA says it needs more: military control of the south, more senior government posts, and a fixed share of the oil revenues. These measures would seriously threaten the oligarchs in Khartoum.

America has promised to apply pressure to end Sudan's war, but its policies are muddled. Many of America's more fervent Christians support the SPLA in what they see as a war against Muslim oppression. Hence America's threat to increase non-military aid to the SPLA fivefold if the government sabotages the peace talks. American oil firms, on the other hand, want their government to be friendlier with Khartoum, which is why American economic sanctions against the regime, though tougher than those imposed by others, are not as tough as America's angry Christians would like.

Blood, oil and aid

Aid complicates the picture. While European oil companies jostle for concessions in southern Sudan, their governments spend hundreds of millions of dollars trying to feed the displaced. The south's hardy pastoralists would have less stomach for the fight without the 70,000 tonnes of food the UN delivers each year. And aid keeps government troops fed, too. During their recent push into Western Upper Nile, government militiamen stole 150 tonnes of flour and vegetable oil from the UN.

In the absence of competent local pilots, the UN hires Russians to drop its food packages. The government also hires Russians, to drop bombs on the same areas. A few, it is rumoured, do both jobs.

A day with Mr Gadeat, the rebel commander in Western Upper Nile, reveals much about how the SPLA keeps its men motivated and supplied. In the morning, a light aircraft brings food for his fighters from a Norwegian aid agency, partly financed by USAID. Soon after, a UN security officer drops by, offering tips on how to shoot down helicopter gunships. In the late afternoon, a few hours before the battle, a third plane arrives from Kenya, carrying wooden crates of arms. While drilling, Mr Gadeat's men sing rousing war-songs, with refrains such as “Kill the Arabs” and “Our leader is stopping the oil”.

Without greater pressure from abroad, and greater democracy at home, no Sudanese peace deal is likely to last. The government seems unlikely, unbludgeoned, to make the necessary concessions. It has also, by barring opposition parties from the peace talks and arresting 34 dissidents this week, signalled that its dictatorship is not up for negotiation.

Meanwhile, on that battlefield in Western Upper Nile, men are dying. One militiaman, unscathed apart

from two neat bullet holes through his right ankle and left shin, is eating grass to slake his thirst. He will die slowly in the sun, unless the hyenas get him first. He literally has no hope. Aid agencies such as the Red Cross will not help him, because the government has not allowed them into the region. The SPLA does not help enemy wounded, even if, like this militiaman, they are from the same tribe. And the only civilians in the area are those who were too feeble to flee when the government razed their villages. “They will all die,” says Mr Gadeat, cheerfully. “It will only take a day or two.”

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Iraqi opposition

As diverse as Iraqi society itself

Aug 29th 2002 | CAIRO
From The Economist print edition

New optimism among the groups who oppose Saddam Hussein

BEFORE being shot in a 1958 coup, Iraq's King Faisal of Iraq regretfully described his people as malingerers prone to superstition and anarchy. Saddam Hussein's jackbooted style suggests he holds much the same opinion. Yet those alleged national traits have also helped Iraq's dictator: at least until recently they applied pretty well to the confused mass of exiled opponents who want to overthrow him.

Uneasy allies for the duration

Ethnic and tribal	Main leaders	Based in	Comments
Patriotic Union of Kurdistan*	Jalal Talabani	Sulaymaniyah, Iraqi Kurdistan	Controls southern half of Iraqi Kurdistan
Kurdistan Democratic Party*	Massoud Barzani	Arbil, Iraqi Kurdistan	Controls northern half of Iraqi Kurdistan
Four Assyrian parties; two Turkomen parties	na	London and Iraqi Kurdistan	Represent minority language groups in northern Iraq
Alliance of Iraqi Tribes	na	na	Nineteen exiled tribal leaders out of some 150 Arab tribes in Iraq
Religious			
Supreme Council for Islamic Revolution*	Muhammad Baqer al-Hakim	Tehran	Main Shia group, active cells in Iraq. Co-operates with Iran's approval
Islamic Daawa Party	na	Damascus, Tehran, Europe	Anti-American Shia group, weakened in massacres by Saddam Hussein in 1980s
Sunni and Kurdish Islamist groups	na	na	Include small extremist factions
Nationalist			
Iraqi National Congress (INC)	Ahmad Chalabi	London, Washington	Umbrella group for pro-American opposition
Iraqi National Accord*	Iyad Allawi	London, Amman, Damascus	Ex-Baathists with good contacts inside Iraq, favours internal coup
Constitutional Monarchy Movement*	Sharif Ali Ibn al-Hussein	London	Wants Sharif Ali, heir to family that was deposed in 1958, installed as king
Two communist parties; pro-Syrian Baathists; others	na	na	Reject co-operation with America
Military			
Iraqi National Coalition	Tawiq al-Yasiri	London	Small group of former officers, organised London conference of military exiles
Free Officers Movement*	Najib al-Salhi	Washington	Led by a former commander in the Republican Guard, who fled in 1995
Iraqi Officers Movement	Fawzi al-Shamari	Washington	Competes for American attention
1,500 exiled officers	Wafiq al-Samarrai Nizar al-Khazraji	Damascus, various European capitals	Includes high-ranking defectors, some with blood on their hands

Source: *The Economist* *Member of INC

This may perhaps be changing. The 3m or so citizens who have fled Iraq, and the 4m who live in the autonomous Kurdish region, still support a bewildering clutter of opposition groups. But their normally drowsy offices in half a dozen Arab and European capitals now crackle with confident anticipation.

“We are talking weeks and months, not years,” says Iyad Allawi, a reformed Baathist who, like many opposition veterans, has survived a quarter-century in exile and at least one assassination attempt.

Pressure comes from the Bush administration and its call for “regime change”. Partly, this takes the form of warlike words, such as those voiced this week by Dick Cheney, the vice-president, in a speech calling for pre-emptive action. But military pressure is also increasing with advance deployments of American

weapons in the region, and more air patrols over north and south Iraq. And tighter American sanctions, plus a pricing regime for Iraqi oil exports that turns away buyers, throttle Iraq's enfeebled economy.

Cranking up the engine

America has also turned its energy to recharging the Iraqi opposition, both financially and in terms of morale. The efforts have yet to produce a united front, though last month the administration invited six leading groups, including Kurds, nationalists and even an Iranian-backed Shia opposition front, for talks that were described by all as fruitful.

The details of action were not discussed, say some who attended, but the Iraqis were impressed with America's commitment to a free, united and democratic Iraq, while the Americans were pleased by promises of greater co-ordination between the groups, who have often been vicious rivals. In exchange for more American money, the opposition groups promised to crank up propaganda and recruitment efforts inside Iraq, and to do their bit to try to reassure Iraq's doubting neighbours that American action would somehow be good for them, too.

America has also reached out for new allies among Iraqi exiles, inviting jurists to map out a legal transition, and summoning tribal leaders who, it is hoped, could call on clansmen to subvert the Baghdad regime. The spirit of co-operation among the wider opposition has even inspired some former officers in the Iraqi army, an especially divisive lot, to meet in London and issue a Covenant of Honour calling for a pluralist and demilitarised Iraq. All these groups plan to hold a larger meeting soon, which, or so it is hoped, will be a sort of *loya jirga* to endorse America's role in regime change, and perhaps to draw up a plan for Iraq's future.

According to a range of opposition leaders, the mix of American pressure and higher-profile opposition activity is already causing strains inside the country. The scale and quality of defections are growing, they say, with several dozen mid-ranking officers and one major-general in the security forces having crossed over in the past month alone.

Opposition leaders differ, however, on what this all means. Mr Allawi believes that cracks in the regime are widening so fast that only small-scale American military action may be necessary for it to crumble. Hamed al-Bayati, a spokesman for the Supreme Council for the Islamic Revolution, a Shia group, thinks Mr Hussein cannot be toppled unless America “goes for the head of the snake” by taking Baghdad. A popular uprising will be possible, he says, only if America cripples the Iraqi ruler's ability to communicate with his commanders.

For all its sudden enthusiasm, the Iraqi opposition has a long way to go before any of its parts, or even the whole, becomes an effective force. America and its allies have backed many of these groups since the 1991 Gulf war, but their fractiousness, combined with discord inside American administrations, has made for rocky relations. Some groups—the Communists, some Baathists and some Islamists—bitterly blame America for the severe distress caused by sanctions. Others charge America with serial betrayal—of a 1975 Kurdish revolt, of the 1991 uprisings among the Shias and Kurds, of two coup attempts in the mid-1990s that were scuppered by CIA mishandling, and of hundreds of opposition activists executed when the Iraqi army captured their bases in 1996.

Yet, for all its bad memories, shady past and current feebleness, the opposition does have something important to offer. The diversity of its factions better represents Iraq's subtle ethnic and religious mix than Mr Hussein's monolithic Arab nationalism. If its leaders can overcome the bad blood between them, the opposition is not a poor model for a pluralist society.

“We're not seeking an Islamic state,” says a Shia leader. “We just want to be another quietly prosperous Gulf country.”“I don't care if it's a monarchy, a republic or whatever,” says a Kurd who thinks Scotland is a good model for Kurdistan in an Iraqi federation. “I just want the repression to end.” But see this article for what Kurds inside Kurdistan may be planning.

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Israel

Cutting out the cancer

Aug 29th 2002 | JERUSALEM
From The Economist print edition

How Israel's army commander sees the Palestinian threat

Get article background

AP

Yaalon tells the rabbis of the Palestinian danger

THE latest broadside in the Israeli-Palestinian conflict was delivered by Lieutenant-General Moshe Yaalon, a former intelligence chief who took over as Israel's chief of staff in July. The Palestinian threat, the general told a convention of rabbis last weekend, was like a cancer, visceral and life-threatening. The *intifada* was not a popular uprising against Israeli occupation, but a premeditated war. It was intended, he said, to bring about the collapse of Israeli society, and the eventual eradication of the Jewish state.

General Yaalon's words were excoriated by Israel's peace camp as an unwarranted trespass into politics. On the right, they were celebrated. He then elaborated his view of the world in an interview with *Haaretz* published on August 29th. "[The Palestinians] believe that time is on their side and that, with a combination of terrorism and demography, they will wear us down." Faced with this threat to its survival, Israel's only option was to secure "victory", which the general defined as "the very deep internalisation by the Palestinians that terrorism and violence will not defeat us... If that is not seared into Palestinian and Arab consciousness, there will be no end to their demands of us."

For General Yaalon, the practical conclusions were clear. There must be no unilateral concessions and no withdrawals that could be interpreted as signs of weakness, as the Israeli withdrawal from Lebanon in 2000 had been widely interpreted. As for the security fence that the government is building along sections of the Israeli-West Bank border, the general said that if it were up to him, he would "spend the money better elsewhere".

He said he spoke as "a humanist, a liberal, democrat and a seeker of peace and security". Other Israeli seekers of peace see themselves thrice wounded by the general's tirades.

Many of them have focused their frustration on the personality of Yasser Arafat. But General Yaalon's condemnation took in all the Palestinian leaders. Like the Nazis in Germany after the second world war, he said, they must all be barred from serving in a reformed Palestinian administration. Nor did he allow any room for diplomatic mistakes during the peace negotiations: he himself, he said, had always doubted the sincerity of the Palestinian side. Above all, the general repudiated the late Yitzhak Rabin's view that the Palestinians, even at their most violently rejectionist, do not constitute a threat to Israel's existence.

Implicit in the chief of staff's statements was a distinct lack of enthusiasm for the tenuous "Gaza, Bethlehem first" agreement concluded last week by his putative boss, Binyamin Ben-Eliezer, the defence minister. Mr Ben-Eliezer, who is also the leader of the Labour Party, says that he is pleased with the way the agreement is working in Bethlehem. But the army has let it be known that it wants to postpone the next planned withdrawal, from the West Bank town of Hebron, until after the Jewish holy days in the autumn. And Ariel Sharon, who is plainly in tune with the thinking of his army commander, this week pooh-poohed the whole deal as "just moving a couple of jeeps".

There was a crumb of comfort for depressed Israeli peaceniks in some bold talk by the British chief rabbi, Jonathan Sacks. Interviewed in the *Guardian* on August 27th, Mr Sacks confessed that "there are things that happen on a daily basis [in Israel] which make me feel very uncomfortable as a Jew." He had always

believed, he said, that Israel “must give back all the land for the sake of peace.” But then, how many divisions has the chief rabbi?

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Iraqi Kurdistan

With their eyes on Kirkuk

Aug 29th 2002 | ZAWITA, NORTHERN IRAQ
From The Economist print edition

The Kurds talk of federation and plan for independence

ONE says sort-of no, the other sort-of yes. The no comes from Massoud Barzani, leader of the Kurdish Democratic Party (KDP), who runs the north-west of Kurdish-controlled northern Iraq. Mr Barzani fears that an American war on Saddam Hussein could have dire results for the Kurds, resulting in the loss of the huge gains they have made since the creation of their autonomous enclave in 1991.

The yes comes from Mr Barzani's rival, Jalal Talabani, whose Patriotic Union of Kurdistan (PUK) controls the south-east. On a recent trip to Washington he announced that the Americans would be welcome to use his territory as the base for an attack. He then both retracted and repeated the offer.

In fact, whatever they say, the Kurds will have little choice. Once an attack was started, it would be virtually impossible for them to stay on the sidelines, especially if, as they believe, the Iraqi army collapsed, and uprisings occurred across Iraq.

There is another reason why the Kurds will probably join battle. It hangs in every government and party office in the enclave: the Kurds' official map of Iraqi Kurdistan. The map covers almost double the territory that the Kurds control today. And bang in the middle of the land they want is Kirkuk, an oil-rich city now well within Baghdad's control. The Iraqis (much like the Sudanese; see article) will fight to the death for oil.

Officially, the Kurds are committed to a federal Iraq. But, if this came about, where would the federal borders lie, and who would draw them? The Iraqi Arab opposition groups have signalled to the Kurds that they do not believe that there is any need to sort this problem out now. Kurdish officials are inclined to agree—since they know that their Arab colleagues would never agree to their maximalist demands.

But this means that if the Iraqi regime were to collapse, the Kurds, who have up to 100,000 fighters, would hope to seize as much land as possible, as quickly as possible. They would then be able to negotiate future borders from a position of strength.

For Kurdish leaders, federation is a means to an end. The end they look to eventually is independence and, in the even more distant future, the unification of all the Kurdish lands in Iraq, Syria, Iran and Turkey. So it is all-important for them to set and get the borders they want.

But the Kurdish lands that are now controlled by Mr Hussein have been heavily Arabised. Kurds have been progressively cleansed, especially from Kirkuk, and Arab settlers have been brought in to replace them. Even so, the Kurds are confident. They do not expect property conflicts: the Arabs, they say, will flee before them.

The up-beat mood is expressed by Freydoun Abdul Kheder, the interior minister in PUK territory. He says he knows that “Saddam is finished” because, in the past few months, Iraqi military officers have been plying him with valuable intelligence. They are doing this, he says, because they want to claim that they had always worked against Mr Hussein.

And, despite Mr Barzani's reservations, at Zawita, in the KDP's zone, mountain guerrillas are being

trained to become soldiers in a regular standing army. As they drill, they shout: “Kurdistan or death!” A standing army for a federal unit seems a bit ambitious. But not if the Kurdish leaders are thinking forward, well into the future that all Kurds long for.

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Germany's election

It's not over yet

Aug 29th 2002 | BERLIN
From The Economist print edition

With three weeks to go, Gerhard Schröder (above) has pulled back lost ground

Get article background

NEVER have German voters appeared so undecided or so volatile, so close to an election. In early May, Chancellor Gerhard Schröder's Social Democrats were trailing some ten percentage points behind the conservative opposition in the opinion polls. By June, they had narrowed the gap to just a couple of points. Early this month, they were once again a good 6 or 8 points adrift. Now, according to some pollsters, they have edged back to within a single point of the conservative Christian Democrats. However, with only three weeks to go before the election, an unusually large proportion of voters—one in three—has yet to decide what to do.

The floods in the east of the country, the worst for more than a century, have helped lift the Social Democrats' sagging fortunes. Mr Schröder's decisive handling of the crisis contrasted with the bumbling reaction of his conservative rival, Edmund Stoiber. The chancellor's decision to put off for a year the next stage of planned income-tax cuts, due to take effect on January 1st, and to impose a one-off levy on corporate profits to raise funds for the flood victims, may be economically questionable, but it looked better than Mr Stoiber's panicky zig-zag. First the conservative leader supported extra corporate taxes, then he condemned them. His eventual solution—in effect, an increase in new debt as a means of providing flood relief—risks pushing Germany's already awkwardly high public deficit over the European Union's 3% limit.

The Social Democrats watched jubilantly as their ratings rose. But they know that their fortunes could well sink again as the flood waters retreat. The focus of attention is already shifting after a much-hyped televised debate on August 25th.

Such an American-style show-down had never been tried before in democratic Germany, where the parties, not their bosses, are supposed to play the leading role in election campaigns. Despite the excitement—some 15m Germans tuned in—the outcome was disappointing. The hoped-for cut and thrust turned instead into an awkward double interview, with each contender talking through a moderator. An ever-grinning Mr Stoiber was deemed to have performed well by his own rather wooden and gaffe-prone standards. Mr Schröder, more of a media star, showed none of his usual punch or wit.

Mr Stoiber scored higher on the economy and jobs. Mr Schröder came over as the more likeable of the two and likely to make the better chancellor. Both men stuck to vague promises of more jobs, less public spending, lower taxes and a stronger economy; both wanted greater social justice and a revamped social

welfare system. Neither man spelled out how he would achieve this. No wonder so many voters are undecided. According to pollsters, most Germans do not think much of the present government. But they do not believe Mr Stoiber's lot would do better.

Mr Schröder's greatest weakness remains the economy. Figures published last week showed that GDP had grown by 0.3% in the second quarter, the same as in the previous quarter, after shrinking in the last three quarters of 2001. But consumer spending remains almost flat, while unemployment continues to climb. Figures for August, due out next week, are expected to show that the total number out of work has risen for the first time above the level that Mr Schröder inherited when he swept to power four years ago on a solemn pledge to cut the dole queues. If he did not achieve that goal, he said, later defined as no more than 3.5m without a job, he would not deserve to be re-elected.

Mr Stoiber, who as premier of Bavaria runs one of Germany's most affluent states, will not let him forget that. But his own record is not exemplary. Unemployment in Bavaria is the second lowest in Germany (not the lowest, as he claims): 5.7% compared with a west German average of 7.9%. But it has jumped by a fifth over the past year, three times the national rise. Last year, Bavaria's economy grew by a meagre 0.9%. Yet that was still better than the 0.6% for Germany as a whole, and that is what counts with voters.

Mr Schröder will now be doing his damnedest to deflect attention from the economy. Recent talk about a possible war against Iraq could help him. He has said Germany should take no part in military “adventures”. Mr Stoiber, usually keen to to show solidarity with America, has been slower to criticise the Bush administration's war plans. Most Germans strongly oppose to any American-led military intervention in Iraq. This issue could also help boost the chances of the ex-communist, and pacifist, Democratic Socialists. If they fail to win the 5% required to get into parliament, Germany's complex voting system would almost certainly ensure a parliamentary majority for Mr Stoiber's conservatives. If the ex-communists do get back in, the Social Democrats still have a chance. Mr Schröder must be praying for America's sabre-rattling to continue.

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The Balkans

Thankless tasks

Aug 29th 2002 | PRISTINA
From The Economist print edition

Cracking down on crime in Kosovo

EPA

For some, they are all still heroes

AREN'T the killing fields of the Balkans supposed to be settling down and living happily ever after, with less and less need for international supervision or aid? That is what many western politicians—and their voters—have been hoping.

Sadly, things still feel far from settled in the wilder bits of Kosovo—where over 60 people, including 11 police officers and three NATO soldiers, were hurt in a recent scuffle between peacekeepers and local Albanians. In nearby Macedonia, where war between Slavs and Albanians (some Kosovo-based) was averted last year, the risk of fresh conflict still exists.

All in all, this summer has been one of the tougher, and more thankless, periods for the international overlords of Kosovo, whose predecessors were showered with roses by grateful Albanians when they arrived, on the heels of a defeated Yugoslav army, three years ago. It is a sign of the times that Michael Steiner, the (impeccably liberal) German who runs Kosovo for the UN, has been depicted in the local media with a Hitler-like moustache.

But this souring of relations between Kosovo's protectors and parts of the ethnic-Albanian community is not all bad news. Both Mr Steiner and General Marcel Valentin, the French commander of NATO's mission, have taken what they knew to be a calculated risk by vowing to crack down harder on crime, racketeering and contraband among the Albanians—as well as imposing their authority on recalcitrant Serbs in the north of Kosovo.

As part of this drive to enforce the law, some senior veterans of the Kosovo Liberation Army, the guerrilla force which helped oust the Serbs from the province in 1999, have been arrested on charges of illegally detaining, torturing and killing fellow Albanians. Earlier this month Ramush Haradinaj, a warrior-politician and senior member of the province's ruling coalition, was indicted for his alleged role in a shootout in western Kosovo.

For the increasingly effective UN police force, these arrests are only the beginning of an overdue effort to rein in Kosovo's notorious underworld, in which dealers in prostitutes, heroin, cigarettes and guns have made vast fortunes. Some Kosovar Albanians—especially supporters of Ibrahim Rugova, the moderate who holds the province's (relatively powerless) presidency—will undoubtedly breathe a sigh of relief if the foreigners' bid to root out crime and extortion succeeds. But in the short term, more noise will be made by backers of the hard-line warlords who now find themselves in the UN's sights; and opinion in the province is certainly divided.

In any case, despite the anti-UN slogans on the streets, Kosovo's administrators are quietly confident of vindication. They acknowledge that self-described war veterans have staged anti-UN protests in all Kosovo's towns over the past three weeks. But only one of these rallies—in the Haradinaj clan's west Kosovo heartland—has turned violent, and then only mildly so; lives were never in danger. One international policeman argues that most Kosovars are tired of living in a province where criminals wield huge power; that feeling, he reckons, will prevail over orchestrated xenophobia. Nor have the demonstrations made any real impact on the lethargic way of life of rural Kosovo, which is now largely peaceful. Inter-communal killings have almost stopped—albeit partly thanks to self-segregation by rival ethnic groups.

The UN says routine crime is almost under control, though organised crime is not. In some places, Serbs and Albanians even mix openly. Black-garbed Serb pensioners can shop in the market in the Albanian-dominated town of Gnjilane without the American armoured vehicles which have hitherto been needed to protect them.

The UN's new toughness towards Albanian extremism has also had a beneficial effect in Macedonia. The arrest in Kosovo, earlier this month, of six alleged members of the so-called Ilirida Republican Army, a new Albanian-nationalist group, produced sighs of relief in Skopje, where Slav-Macedonians often accuse the West of coddling armed Albanians.

In the latest sign of tension in Macedonia, two policemen were shot dead this week outside the Albanian-dominated town of Gostivar. Under the hard-line leadership of Ljube Boskovski, Macedonia's interior ministry would almost certainly relish the excuse to settle scores with local Albanians, armed and otherwise. So the need to keep Macedonia's broiling tensions under control at all costs—if possible by apprehending Albanians bent on destabilising that country, while they are still in Kosovo—is keenly felt by all western diplomats and soldiers in the region.

Looking a little further ahead, these outsiders see grounds for cautious optimism. As long as Macedonia's election next month can proceed in peace, and local elections in Kosovo a month later are relatively smooth, it should be possible to start reducing the NATO mission, to below 30,000 from the current 35,000. Britain, in particular, wants to halve its contribution from over 2,000 to less than 1,000, as military challenges in other parts of the world—such as Iraq—loom larger.

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Spain and its Basques

Silencing the secessionists

Aug 29th 2002 | MADRID
From The Economist print edition

A ban on Batasuna will not be the end of the terror story

AP

Batasuna is all stirred up

BANNING Batasuna, the political wing of the violent Basque separatist group ETA, is, according to Spain's prime minister, Jose Maria Aznar, the only option left in his battle to stamp out terrorism. But the ban has stirred up a hornets' nest.

Batasuna has enjoyed all the benefits of democracy, including official funding received by Spain's political parties, while giving tacit support to ETA, which continues to kill and intimidate—836 people have died so far. According to police reports, links between the two are so strong that no real distinction can be drawn. After 25 years of a democratic system, including a strong dose of devolution for the Basque country, the government in Madrid thinks it is time to stop feeling guilty for Spain's past under Franco and to get tough on those who undermine freedom.

Mr Aznar has a parliamentary majority behind him for his assault on Batasuna, and most Spaniards back him. At a special session of parliament, recalled from recess on August 26th, members passed a motion asking the government to outlaw the party. The full process could take several months but Spain's campaigning magistrate, Baltasar Garzon, has already moved to suspend its activities. A separate bid to ban it by the attorney-general is also under way. Judge Garzon has frozen Batasuna's bank accounts and forbidden its leaders to organise demonstrations. On August 27th, the Basque regional police began to implement a legal order to shut down Batasuna offices throughout the Basque country. Electricity and water companies have been ordered to cut off supplies.

Just a few hours after the parliamentarians voted, ETA placed a bomb near the courts in the Basque town of Tolosa. Police carried out a controlled explosion. Batasuna's leader, Arnaldo Otegi, dragged out of party headquarters in Bilbao, described the ban as typical of the “repressive” Spanish state. But he saved his worst spleen for the mainstream Basque Nationalist Party, which controls the regional government and police, calling it a “traitor”. “If you want war; you'll get it. The armed struggle is the only way,” shouted Batasuna supporters gathered outside the building.

What now? Batasuna could contest the moves, even though that means recognising the Spanish courts. But initially its leaders have been keen to present themselves as victims of the Spanish state. Some party officials have announced they will move their headquarters to Bayonne in the French Basque country.

Relations between all of Spain's political parties have been strained. The Basque nationalists who voted against the ban have been accused of “cowardice” by members of Mr Aznar's People's Party . So, too, the Catalan Nationalists and United-Left coalition, who abstained. The opposition Socialists supported the move but writhe in discomfort at the aggressive tone of Mr Aznar's followers. Basques, meanwhile, fear that the run-up to municipal elections in May (where Batasuna has traditionally done best) will be bloody.

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Turkey

A man for all Turks?

Aug 29th 2002 | ANKARA
From The Economist print edition

How Kemal Dervis could change the face of Turkish politics

HE'S finally made up his mind. After keeping the nation guessing for the better part of a month, Turkey's former economy minister, Kemal Dervis, has declared that he will be going into politics after all. He has thrown in his lot with the Republican People's Party, known as CHP, Turkey's oldest left-wing party. The announcement marks a dramatic shift in Turkey's politics, with parliamentary elections due on November 3rd.

Mr Dervis's personal popularity is such that, until last week, he was being wooed by one political party after another. For secular-minded urbanites, he is the only effective answer to Recep Tayyip Erdogan, Istanbul's former mayor, who continues to be labelled an Islamist, though he insists he does not believe in mixing religion with politics.

For the country's industrialists and for western governments, Mr Dervis is the only person capable of steering Turkey out of its financial mess. Since being called home from the World Bank 18 months ago, he has made notable progress, pushing through a programme of fiscal and economic reform that won for Turkey a huge rescue package from the International Monetary Fund and the Bank. But much remains to be done. Mr Dervis insists that unless "there is full co-ordination between the ministries dealing with economic matters"—by that he probably means, unless he is at the helm of the economy (he is not interested in becoming the next prime minister)—Turkey could plunge back into the abyss once more.

With Mr Dervis at his side, the electoral fortunes of Deniz Baykal, the bristly CHP leader, seem much improved, to the detriment of a clutch of leftish parties, notably that recently formed by Ismail Cem, the former foreign minister, whom Mr Dervis had initially supported. Mr Dervis pulled back after Mr Cem brusquely turned down Mr Baykal's invitation to join forces under the CHP banner. Uniting the left is Mr Dervis's most cherished goal.

Can he and Mr Baykal snatch victory from the hugely popular Mr Erdogan? The race will be tight, but with 20 or so parties in the running, the most likely outcome is another coalition government. Mr Dervis makes no secret of his wish to work with Mr Cem as a possible coalition partner. But Mr Cem first has to muster the minimum 10% of the vote needed to win seats in parliament. Without Mr Dervis on his team, that will be tough.

Some of Mr Dervis's friends, including a prominent liberal economist, Asaf Savas Akat, have suggested that the CHP share power with Mr Erdogan. Mr Erdogan has certainly gone out of his way to assuage fears over his alleged Islamist agenda. He says he wants Turkey to join the European Union. He also says he will not field female candidates wearing the Islamic style headscarf; Virtue, the Islamic-leaning party from which Mr Erdogan broke away last year to form his Justice and Development Party, did so and was banned. Joining hands with a party that is clearly supported by a significant number of Turks, if not its meddlesome generals, would surely help shore up Turkey's wobbly democracy, the argument goes.

There is still a chance that Mr Erdogan will be prevented from running. He stands charged with subverting Turkey's secular system during his stint as mayor. A verdict is expected on September 17th. But if Mr Erdogan is excluded, his party could draw sympathy votes.

The outcome many Turks fear is one where Mr Erdogan's followers, discouraged, join forces with ultra-nationalists opposed to Europe and the IMF. Then Mr Dervis's dream of a prosperous, European-oriented Turkey would come to nought.

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Romania's poor

Easy to preach, harder to do

Aug 29th 2002 | BUCHAREST
From The Economist print edition

Free markets have the cure for poverty, maybe, but politicians have voters

THE bankers at an investment conference tried to sound bullish. One day, they said, Romania might catch up with the European Union. New technologies are taking hold. Some factories in Bucharest and in Transylvania, the western province, look as sleek as German ones. Use of credit cards, mobile phones and the Internet is rising fast. The economy should grow respectably this year. Inflation may dip below the target of 22%. Many outsiders see Adrian Nastase's proclaimedly free-market government as Romania's most promising since it discovered democracy.

Alas, that is not saying much. A standard view in Brussels is that, while other Central Europeans should join the EU in 2004 or 2005, Romania will have to wait until 2012 at the earliest. Corruption and poor infrastructure, made worse by recent floods, hold it back. The courts and roads alike are rotten. A third of all Romanians live in poverty. The rural poor can subsist on what they grow. The urban poor have a tougher time of it.

Take Gara de Nord, a working-class Bucharest district one metro stop from the prime minister's office. At first glance, it appears to be moving up in the world. The railway station at its heart has been cleared of beggars and prostitutes. A French hotel chain, Ibis, has done up a once squalid property nearby. A Daewoo car dealership, an Orange mobile phone shop and a 24-hour McDonald's now mark out the neighbourhood's corners. Even street dogs, which used to roam in packs, now move about furtively in ones and twos. But grinding poverty has not gone away.

Ioana Breaza, 57, and her four-year-old niece live in one room across the road from the McDonald's. They share her courtyard's single open latrine with 20 others. The state gives her $22 a month for disability and child care, not enough to get a large lump in her breast examined or to send her niece to kindergarten.

Gianina Radu, 37, lives around the corner, in a broken-down, rat-infested tenement. Her two rooms are dingy but neat, the walls adorned with cheap icons of her favourite saints. Her husband earns $70 a month as a foreman of a flower stall. She gets another $18 in state benefits. They have four children, the oldest aged 20, the youngest four. Gas, electricity and water cost all her husband's salary in the winter and half of it in summer.

That is, if the Radus paid. They don't: like many poorer Romanians, they wait to be cut off. Mrs Radu is glad to see the new businesses in the district, but thinks they are “just for the rich”. Constantin Alexandrescu, who runs a scissor- and knife-sharpening shop in front of Mrs Radu's tenement, is more hopeful. He charges 40 cents to repair scissors, 30 cents to sharpen knives. That is a lot for locals, he admits, “but then everyone needs a sharp knife.” He reckons to make $110 a month, enough for his wife and two children to get by on. “But not enough for a Big Mac,” he grins, waving his oil-stained hands.

Can Mr Nastase, a former Communist turned social democrat, do more for the poor? His government has raised the minimum wage to about $50 a month and has promised to put up pensions. But it has no spare cash to improve health care or education for the poor. Barely a fifth of Romanians pay income tax. Plans to increase revenue by lowering taxes but getting them paid will take time. On the spending side, cut more jobs in state companies—in the oil industry, notably—urge the IMF and World Bank. But in the short run, that means more people out of work, and Mr Nastase is not a banker or a development economist, but an elected politician. His government, balking at the social cost, thinks it has done enough already.

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Scandinavian shoppers

Have car-boot, will travel

Aug 29th 2002 | STROMSTAD, SWEDEN
From The Economist print edition

Some prices are lower across the border. So that's where they go

SYSTEMBOLAGET, Sweden's state-owned alcohol retail monopoly, is doing a roaring trade this summer at its outlet in Stromstad, a small coastal resort just south of the Norwegian border. From the queue outside, stretching down the street and around the block, you could think that the Swedes are an exceptionally thirsty bunch. No: these are Norwegians using their strong krone to fill their car boots with bargains priced in Sweden's krona.

For example, a bottle of decent Australian barbecue wine costs SKr69 ($7.40), as against NKr92 ($12) in Norway. Norwegians can save nearly 40% on a typical trolley-load of groceries, 50% or more on tomatoes or butter, 60% on chicken and other meat products. Furniture, especially sofas and kitchen units from Ikea, is another draw.

The price differences are due partly to Norway's high tariffs on imported foods and huge taxes on alcohol and tobacco, and partly to a sharp rise in its krone, now—thanks to continuing international confidence in Norway's oil-fuelled economy—at its highest ever against the Swedish krona. Cross-border shopping in the Stromstad region is reckoned to have surged by 30% in the first half of this year to NKr1.3 billion.

Yet Swedes too can go bargain-hunting—in Copenhagen, where booze is cheaper and variety wider. In return, Danes, with a krone of their own (both countries belong to the European Union, but neither uses the euro), are increasingly taking the Oresund bridge-and-tunnel into Sweden to buy low-taxed children's shoes and clothing. They can also make worthwhile savings on books, do-it-yourself items and even spectacles. For cheap drink, they drive south into Germany; Carlsberg, a Copenhagen-based brewer, says one-fifth of the beer drunk in Denmark arrives this way.

Political responses have varied. Norway's agriculture minister, Lars Sponheim, tried to shame his compatriots into shopping at home by snootily disparaging them as *Harries*, the kind of folk who wear track-suits and spend their holidays in caravans. The *Harries* sensibly put two fingers up, and opposition politicians are now calling for lower taxes at home instead. Danish politicians are doing likewise.

Though many retailers across the region, perhaps surprisingly, spy benefits in price transparency, the cross-border shopping boom, also maybe surprisingly, has not set off a public chorus for euro membership. Opinion polls put pro-euro sentiment in Sweden and Denmark fairly stable at around 60%. But analysts say support for the euro is due more to its successful launch than hopes of lower prices. And Norwegians remain stubbornly hostile even to joining the EU, let alone the euro.

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About sponsorship

Transport finance

Getting there faster

Aug 29th 2002
From The Economist print edition

Why not make those who benefit pay for transport improvements?

Get article background

AS LONDON booms, gridlock beckons. Average speeds on the most congested routes are now down to 3mph. In the past 15 years, the capital's population has grown by 600,000, nearly 10%. With the population forecast to grow even faster, congestion is likely to get worse, not helped by a queue of transport projects stalled for lack of funding.

Top of the list is the £10 billion ($15 billion) Crossrail high-speed link between Docklands and Heathrow via a tunnel between Paddington and Liverpool Street stations. If you add other much-needed improvements, such as the East London line, the extension to the Docklands railway and light rail schemes in West London, the total amount of money required is probably nearer £20 billion.

It is not only London which faces the threat of creeping paralysis. The Strategic Rail Authority has a long list of projects for which it has no funding, notably a new high-speed dedicated express route to the north from London, costing between £15 billion and £20 billion.

Where are these huge sums to be found? The chancellor, Gordon Brown, shows little enthusiasm for financing transport projects—especially those in London. The Treasury, jaundiced by the cost overruns on the £3.5 billion Jubilee line in the 1990s, believes that the capital is over-indulged compared with the rest of Britain. Crossrail, whose benefits according to its promoters are double its costs, does not even feature in the government's ten-year transport plan.

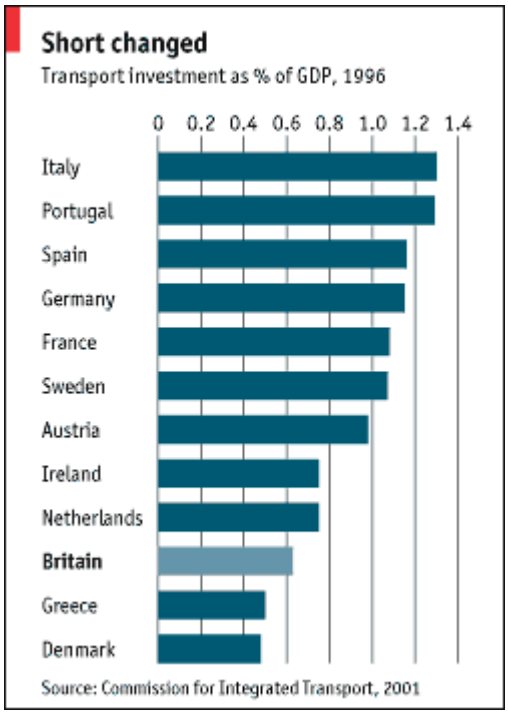
Significantly, however, the chancellor is warming to the idea that another way may have to be found to finance transport infrastructure. A recent local government green paper backs the idea that councils should be allowed to share in development gains, by raising business rates in special areas. It is not a big step from this to using the tax system to capture the value of transport developments.

In theory, the idea of taxing increases in land values makes eminent sense. Why should developers, landlords and tenants make untaxed windfall gains from transport improvements funded by general taxation? The Jubilee line is a case in point. After a good deal of arm-twisting, the owners of Canary Wharf put up £180m, a fraction of the amount it gained as a result of the line. Other developers and landlords along the route paid nothing, although the value of their properties soared by as much as four times.

Don Riley, a south London property developer, claims that the Jubilee line could have been financed

without any government subsidy if part of the increase in land values had been captured. The £5.5 billion Channel Tunnel Rail Link has similarly led to a boom in land values in areas such as Kings Cross, Ebbsfleet and Stratford. A new high-speed line to the north would bring big gains to any city along its route. When public money brings windfalls to a few, why should the state not take a share?

The idea of taxing increases in the price of land may sound dangerously radical but actually it is not. It has a history stretching back to the mists of fiscal time. It is advocated passionately by some academic economists but politicians have been unenthusiastic, not least because of problems of implementation. The Treasury's reassessment of land value taxes in the green paper is thus encouraging, though officials stress the review is at a very early stage.



Current methods of capturing planning gains are opaque. Section 106 of the 1990 Town and Country Planning Act empowers local authorities to reach agreements with developers. This has enabled some of the gains that result from planning approval to be tapped on behalf of local communities. But the results are ad hoc, uncertain and often bear little relation to the potential returns.

Other countries have adopted a more coherent approach. In America, $10 billion has been raised in the last five years by anticipating increases in property tax revenues. Tax increment financing (TIF) captures increases in property values resulting from development. San Jose in California, one of the fastest-growing cities in the country, has raised $1.4 billion in this way to redevelop its city-centre.

In Britain, several ways have been proposed to capture part of the increases in value due to planning and infrastructure gains. Stephen Glaister of Imperial College and Tony Travers of the London School of Economics have proposed an infrastructure fund for London financed by a hypothecated levy on the national non-domestic rate, adding perhaps 6% to business rate bills. CB Hillier Parker, a commercial property agent, suggests that Crossrail could be financed by a levy of 2p per pound on the rates, or perhaps a 2% freehold levy on businesses thought likely to benefit from the new line.

Ken Livingstone, the mayor of London, is seeking to persuade the government that this is the right way to tackle the burden of financing transport. But if local authorities are to be allowed to borrow against future tax revenues, the chancellor will have to relax his iron grip on local government spending. With 96.5% of all taxes paid to the Treasury, the scope for local initiative is currently non-existent. It is perhaps not a coincidence that Britain's highly centralised economy has led to decades of under-investment and one of the worst transport systems in Europe.

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Tourism

Cute

Aug 29th 2002
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EPA

The Japanese are flocking to Britain, thanks to Becks and Beatrix

BEATRIX POTTER and David Beckham are unlikely bedfellows, you might have thought. But what these two very different icons of English style have in common is the power to lure thousands of Japanese tourists to Britain.

In the months since the World Cup, the number of Japanese booking holidays to Britain has tripled, according to the Japan Travel Bureau. Recognising the England captain's hysteria-inducing appeal in Japan, the travel bureau is now offering special “Beckham Tours”. These coach trips take in Leytonstone, east London, where Mr Beckham was born; his school in Chingford; his homes in Essex and Cheshire; and Old Trafford, where his club, Manchester United, is based. The travel bureau's target of 1,500 bookings to Britain in the 12 months to March 2003 has already been exceeded: the current figure is upwards of 2,400.

This year also marks the 100th anniversary of that masterpiece of children's literature, “The Tale of Peter Rabbit”. The Japanese have always been fans of the various Potter books, and the Lake District, where she lived for much of her life, has become the second most popular destination for Japanese tourists, after London. Around a quarter of the 80,000 or so who visit Hill Top, Potter's farm near Sawrey, are Japanese. Richard Foster, manager of the World of Beatrix Potter and chairman of the Lake District Japan Forum, says that this summer's visitor numbers are about 25% higher than expected.

Whence Japan's fascination with a mischievous bunny and his furry friends? The standard explanation, says Mr Foster, is that, since many Japanese have learnt English through the Peter Rabbit books, the appeal is sentimental. More important, he believes, is the particular brand of Englishness that the books retail. The wonderful illustrations, classily reproduced on Wedgwood breakfast bowls and teacups, Mr Foster adds, also have a quality, much admired by the Japanese, of being *kawai* (pronounced kah-why-ee), or “cute”.

Which brings us back to Mr Beckham. On the face of it, the chisel-jawed, designer-outfitted athlete has little in common with the quaint imaginings of a homely farmer. But *kawai* might also be the very quality the Japanese respond to in Mr Beckham—and cuteness of a peculiarly Potteresque kind at that. Just look at his World Cup-period hairdo: a straight steal from the pages of Beatrix Potter, surely, combining the two-toned contrast of Tommy Brock and the spiky quiff of Mrs Tiggy-Winkle.

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Gambling

Coming up trumps

Aug 29th 2002
From The Economist print edition

Thanks to the repeal of the betting tax, the gambling business is booming

BRITAIN'S service sector has suffered along with its metal-bashers from the slowdown in the economy. Yet one service industry, the world's second-oldest—gambling—is experiencing a renaissance.

A decade ago, high street betting shops were sullen, dodgy places. Regulations required curtains to shield pedestrians from the evil business inside. Carpets were forbidden, lest punters got too comfortable. Food and drink, even the soft variety, were prohibited. Britons, it seemed, were content to tolerate gambling, but not to love it.

Then came three important changes. In the 1990s, the National Lottery brought gambling in from the cold, letting the middle classes experience the thrill of a flutter. Secondly, the Internet found that gambling was, like pornography, perfectly suited to the medium. That led, thirdly, to Gordon Brown's decision to eliminate betting tax.

In a recent paper, three academics, David Paton and Donald Siegel of the Nottingham Business School, and Leighton Vaughan Williams, director of the Betting Research Unit of the Nottingham Trent University, show how the repeal of the tax is helping to usher in a new “golden age” for gambling. Since October, when taxes on the value of bets were eliminated and replaced by one based on bookies' profits, turnover from racing and sports bets has risen by 70% to £1.3 billion ($1.97 billion) a month, or 1.6% of Britain's GDP.

The tax change, say the authors, reflects the government's desire to maintain Britain's share of the global gambling industry. It was also spurred by tax competition from Ireland. Though the tax cut will reduce receipts in the short term, retaining the old betting tax would have been far worse as bets were fleeing offshore. As part of the tax cut, Internet bookmakers agreed to return home from places like Antigua. Today, although the dotcom boom is but a memory, bookmakers are one of the online world's few success stories.

The tax cut was just the first step in a wider liberalisation of betting. Although a new Gaming Act is not expected before next year, Richard Caborn, the sports minister, last month laid out some of its measures. These include allowing food in betting shops, letting casino punters sip cocktails at the baccarat tables and relaxing the prize limits for old dears enjoying a spot of bingo. Coming soon may be a move to allow the use of banknotes in fruit machines, giving punters an easier way to pursue a particularly addictive style of gambling, which worries Britain's anti-gambling activists. Will London become Las Vegas East?

Britain already has some of the most liberal gaming laws in the world. While most other rich countries chose to make betting on horse-racing a state monopoly, Britain legalised private bookies in the 1960s. In America, tax and regulations were conceived with an eye towards mitigating the social costs of gambling, rather than fostering competition. There, religious groups, which view gambling as a sin, and Indian tribes, which get rich from largely un-taxed casinos on reservation lands, hold sway.

That is a loss for the Americans, since gambling is becoming a big export business for Britain. In this summer's World Cup, around a third of the industry's turnover came from foreign punters placing bets with British bookies, with much of this coming from rich Asian football fans. Other bets come from

America, where puritanical laws—driven by fears of corruption and thrown games—ban sports bets everywhere except in Nevada.

The tax cut has spurred innovation. Person-to-person betting, offered by the likes of www.betfair.com, gives punters a chance to cut out the middleman, making for better odds than the bookmakers'. Though greater competition puts pressure on bookies' profit margins, the increase in turnover wrought by the tax cut is more than compensating. Indeed, despite the stockmarket's dismal days this summer, William Hill's initial share offering was one of its few successes, raising £950m. Other bookies look set to follow.

At a time when the European Union is still pressing Britain for tax harmonisation, gambling is a rare reminder of the benefits of tax competition. Will the lesson stick when it comes to taxes on income and property? Don't bet on it.

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The euro

Sleeping giant

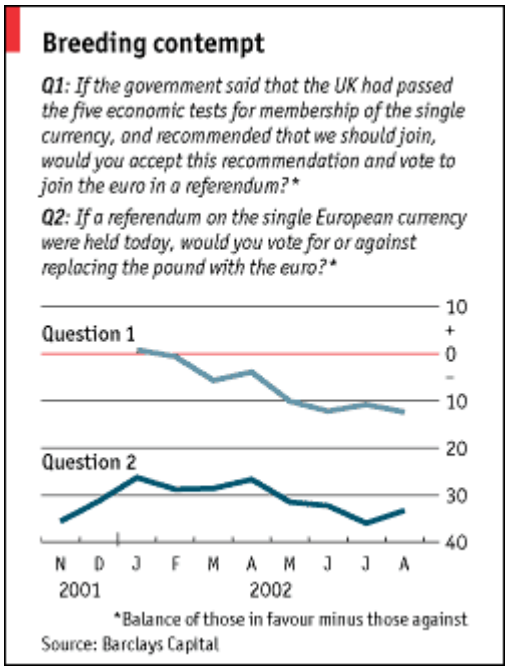
Aug 29th 2002
From The Economist print edition

The euro is less liked, and less talked about, than was expected

OPTIMISTS like to think that hostility to something alien—such as foreigners, or their currencies—declines on closer acquaintance. Thus scepticism about the single currency was supposed to soften once Britons realised that euros wouldn't stain their palms or spontaneously combust.

That optimism seems to have been misplaced. A poll by YouGov—for KPMG and the *Sunday Times*—which quizzed holidaymakers before and after their summer breaks, suggests that paying for sangria with actual euros had little or no impact on people's views. Other pollsters also report a general hardening of opinion against ditching the pound (see chart). Complaints across the euro area about opportunistic price hikes may be part of the explanation.

In so far as Britons are thinking about the single currency, most remain unimpressed. However, the euro is not being thought or talked about much at all. Monetary union has never excited ordinary voters as much as the small bands of fanatics who either love or loathe it. Now, though, polls also suggest, the proportion of people who consider it an important issue is at a low ebb. But since both the government and the Tories—who are in enough of a pickle without reviving their euro civil war—are keeping *shtum* about it, the euro's low profile is not all that surprising.



Of course, high politics tend to drop down news agendas during the summer. Still, this year was supposed to be different. The government is due to reveal whether Britain (and the euro) have passed Gordon Brown's five economic tests for euro entry by next June. Many observers predicted that a referendum on entry would be called for next spring, which would require prior legislation. But nothing much seems to be happening.

One interpretation of this silence is that Tony Blair has shied away, at least for this parliament. Another is that the euro remains one of the issues upon which the prime minister thinks his reputation will hang, and upon which he is ready to make a stand. On this analysis, the government's silence on the euro does not betoken doubt about its poll-winning prowess, but is rather a sensible strategy designed to avoid unduly antagonising the voters.

Political observers, trying to choose between these two views, will have noted a little tour made this week by Jack Straw, the foreign secretary, to the Celtic fringe. Mr Straw was talking of the need for a European constitution, and not about the euro; but he may also have been trying to goad the Tories into saying silly things about the European Union as a whole so that, when the real hostilities commence, they can be portrayed as extremists. The forthcoming Labour Party conference (possibly) and the results of the five tests next year (certainly) should clear things up. By then war with Iraq may have intervened, but even that, Mr Straw insisted this week, would not be enough to deflect the holding of a euro referendum.

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Productivity

Worse and worse

Aug 29th 2002
From The Economist print edition

Britain's productivity growth continues to disappoint

WHEN he became chancellor in 1997, one of Gordon Brown's main goals was to achieve higher productivity growth. He has undertaken a variety of measures, such as a tougher competition regime, to try to boost output per worker. Most of all, he has hoped that Britain would follow America's example and see an acceleration in productivity growth as information technology created a “new economy”.

How galling then that labour productivity, far from accelerating, has actually slowed down. Over the past two decades, productivity growth has averaged around 2% a year. However, in the year to the first quarter of 2002 it grew by just 0.4% and fell by 2% in manufacturing, the sector where it normally grows the fastest.

Ironically, much of this decline has come about through the collapse of output in the heartland of the new economy, the industrial sectors that make information and communications technology (ICT). But ICT production has also plunged in America, though productivity growth there has been remarkably resilient in the face of a much more serious setback to growth last year. According to Dale Jorgenson of Harvard University, annual labour-productivity growth in the recession that started in March 2001 has been a percentage point higher than the average for postwar American recessions.

This cannot explain the divergent record between America and Britain since 1995. In the late 1990s, American productivity growth accelerated sharply from its long-run average of 1.4% a year. Although growth in both GDP and productivity over the last two years has recently been revised down, the general picture of an acceleration in productivity growth of about one percentage point a year remains. Mr Jorgenson believes that three-quarters of this can be ascribed to the effects of the new economy, as technological advances have driven down prices in the ICT sector.

By contrast, productivity growth in Britain, which had been higher than in America in the two decades before 1995, has since declined, averaging only 1.4% a year between 1995 and 2001. The disparity in performance is less marked over a longer time-scale (see article). Mervyn King, the Bank of England's deputy governor, recently summed up this dismal more recent record as follows: "We'd be delighted to see the new economy raise productivity growth in Britain, it hasn't done so for the last five years.”

The puzzle becomes even more perplexing in the light of new international comparisons compiled by the OECD, and presented by Alessandra Colecchia at a conference of official statisticians in London this week. Combining for the first time ICT production in both services and manufacturing, the figures showed that ICT in Britain accounts for just over a tenth of output in the business sector, almost as high as in America and higher than in most European countries—apart from Ireland, Finland and Sweden. ICT's share of manufacturing is lower in Britain than in the United States but its share of services is a bit bigger.

But if the size of ICT production in Britain stands up to

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Prisons

Safe haven

Aug 29th 2002 | PETERHEAD
From The Economist print edition

One prison has succeeded in treating sex offenders—so why close it?

DEALING with child molesters is one of the thorniest problems facing prisons. Other prisoners detest them, and beat them up. The public, currently in a frenzy over sex crimes following the publicity generated by the murder of two 10-year-old Cambridgeshire girls, takes a similar view. People do not want sex offenders imprisoned near them, in case they escape and reoffend. Odd, therefore, that the Scottish Executive until recently seemed bent on closing a sex offenders' prison in a town that actually wants these people kept in their midst.

Peterhead, north of Aberdeen, is a bleak place. Its Victorian prison, perched on top of a cliff, is bleaker still. Until the late 1980s it housed Scotland's most vicious gangsters. Then it was decided that it should be turned into a prison dedicated to dealing only with about 300 sex offenders, serving four years or more.

Local reaction was predictably hostile. “I had a hell of a time,” says Alex Salmond, the area's MP who supported the plan. But eventually hostility turned to support. The prison is a big employer, and people were reassured that no offender would be released locally. Instead, they would be released from the prison they had first been sent to. So supportive did locals become that when the governor of the prison proposed day-release community work schemes for prisoners nearing the end of their sentences, he got almost no objections.

But last year Jim Wallace, the Scottish justice minister, proposed closing the prison. The reason, he said, was that he had examined all Scotland's prisons, and wanted to shut the oldest ones and build new ones in central Scotland. This was the cheapest way of dealing with rising numbers. But it also meant ending the sex-offenders programme at Peterhead, which began in 1993.

The scheme has been remarkably successful. Though the statistics are contested, it seems that only six out of 156 released prisoners have reoffended, a low recidivism rate. Bill Marshall, a retired Canadian professor of psychiatry, who has helped establish and evaluate similar programmes in 15 countries, says Peterhead is “world-class”, and that it would be difficult to replicate elsewhere.

That is because the absence of other criminals means that sex offenders can talk freely about their crimes and treatment, without fear of being beaten up. Local support—wives, for example, say that, unlike elsewhere, their prison-officer husbands can wear their uniform in public without being spat at—has helped generate staff pride, making the place very unusual. The moral appears to be that people are more important than buildings. Belatedly recognising this, Mr Wallace is expected to announce that Peterhead's prison will stay.

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Classical studies

Mighty mouse

Aug 29th 2002
From The Economist print edition

Latin and Greek are attracting a new generation of schoolchildren with the help of strip cartoons and comic characters

REPORTS of the death of classics have been greatly exaggerated. Having survived all manner of indignities since the early 1960s—from changing fashions in education to brutal funding cuts—the discipline is, all things considered, in remarkably good shape.

The current revival of interest in ancient Greece and Rome can be seen everywhere: in film and on television (“Gladiator”; countless history programmes and documentaries), on the stage (Fiona Shaw's star turn as Medea was a theatrical highlight last year) and in publishing (coffee-table guides to the ancient world; bestselling biographies such as Anthony Everitt's “Cicero”; the Roman detective novels of Steven Saylor).

Despite a long decline in the number of British secondary-schoolkids doing Latin and/or Greek, the latest figures reveal something of a comeback at AS and A-level. The number of pupils taking AS-level classical subjects rose by an astonishing 34% this year, from 5,020 to 6,915. Though figures for university admissions are somewhat erratic, the overall pattern at this level, too, is one of growth. Between 1986 and 1999 (the last year for which figures are available), admissions to study classics at university rose from 567 to 1,012.

Nick Lowe, a lecturer at Royal Holloway, part of the University of London, says that applications to read classics there have gone through the roof this year. He identifies a number of factors behind the growing popularity of classical studies. “Above all, it takes students away from the world of David Beckham and guys trying to sell you ring tones, and puts things into a bigger context.”

But perhaps the most significant indicator of an institutionally-driven classics revival is the runaway success of “Minimus”, a Latin textbook for 7-11-year-olds first published by Cambridge University Press three years ago this week. “Minimus” is the invention of Barbara Bell, head of classics at Clifton High School in Bristol. The cartoon-style book is set in Vindolanda, a real town near Hadrian's wall, and features a family which shares its home with a cheeky mouse, Minimus, and a well-fed cat, Vibrissa.

“Minimus” has now sold over 36,000 copies—about a thousand a month since 1999—and is being used in more than 1,000 primary schools across Britain. (And elsewhere: interest is strong in Australia and America; only last week Ms Bell received a letter from a teacher in Kenya relating how much her pupils were enjoying the course.) In response to the enormous demand for a follow-up, Ms Bell is presently at work on “Minimus II”.

Ms Bell says she wrote the book in order to fill a gap in the market: there was no decent textbook to help children understand how language works. But the enthusiasm of their response has surprised and delighted her. “Eight-year-olds are curious creatures,” she says. “If you can tap into that curiosity, they are unstoppable.”

Lead on, Minimus!

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Nestlé

A dedicated enemy of fashion

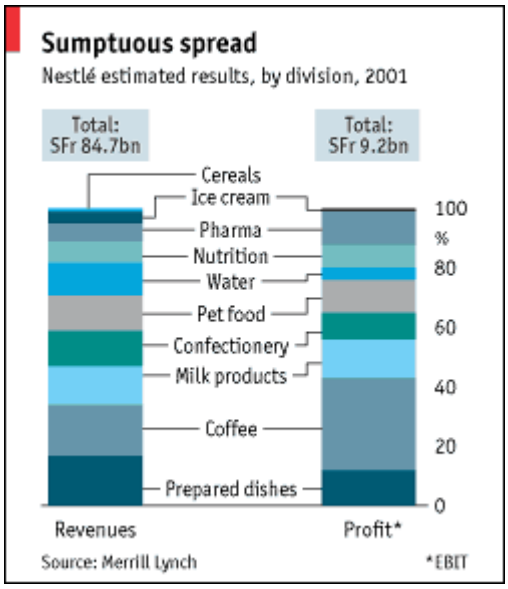
Aug 29th 2002 | VEVEY
From The Economist print edition

Most companies claim to run their business for the long term. Nestlé is one of the few that really does

PETER BRABECK is used to the name-calling by now. Boring, lame duck, sleeping giant—he has heard them all. Sitting in his office in Vevey, overlooking Lake Geneva, the chief executive of the world's biggest food company is almost proud that Nestlé has been dismissed as dull for much of its 136-year history. What worries him far more are accusations that the Swiss group is swapping a consistent, long-term strategy of controlled expansion for an unbridled acquisition spree to pep up its growth rate—and that it is doing so just when dullness is back in fashion in the business world.

By any definition, Nestlé is already a giant. It owns an array of global brands, including Nescafé, the world's bestselling instant coffee, Perrier and Vittel water, KitKat chocolate and Friskies pet food. It towers over its rivals, with a market capitalisation of $86 billion, more than $50 billion of annual sales and pre-tax profits forecast at $5.5 billion for 2002.

The company is keen to grow even bigger, and acquisitions have a role to play. Between 1985 and 2000, Nestlé spent some $26 billion purchasing other companies. By contrast, in the past 18 months alone it has splashed out more than $18 billion. It is now considering a bid for both Adams, which makes chewing gum and sweets and is valued at around $5 billion, and Hershey Foods, America's leading chocolate company, worth some $12 billion. While most of its previous 250 or so takeovers were small, Nestlé has acquired a taste for big, expensive bites, such as the $10.3 billion purchase last year of Ralston Purina, a pet-food maker, and this August's $2.6 billion takeover of ChefAmerica, a frozen-snack producer. Wolfgang Reichenberger, Nestlé's finance chief, has even said the company would sacrifice its cherished AAA credit rating for the right deal.



For Mr Brabeck, there is no contradiction here—and certainly no change in strategy. As he points out, acquisitions have always been part of the Nestlé way, with bouts of feeding usually followed by periods of digestion. Indeed, its purchase of Carnation in 1985

was the biggest-ever takeover outside the oil industry at the time.

Nor does Mr Brabeck see anything wrong with a streak of opportunism, even at a high price, when a "*filet mignon*" comes up for sale. "They are very rare, those pieces," he says. "When you have such an opportunity, it fits strategically and you want to be a leader in that area, I don't see why you shouldn't act." By this definition, Ralston Purina was pure *filet mignon*—as, he concedes without bitterness, was Bestfoods, which was snapped up by Unilever, his nearest rival. He describes Hershey, perhaps a little disingenuously, as "*entrecôte*"—a slightly inferior cut of meat. After all, with a 43% share of American confectionery sales, it would give Nestlé a big lead in the world's biggest chocolate market, where the Swiss group is currently number three.

If Nestlé does decide to pounce, it will be relatively well-placed to deal with Hershey's quirks and the misgivings of the local community (see article). Nestlé has a reputation for managing smooth integrations, even of difficult companies, because it tends to let the target's management run the merged division, rather than insisting on its own people taking over. Putting Ralston Purina's management in charge of the group's global pet-food business and basing it in Ralston's home town of St Louis has worked well: the division is exceeding its targets for both cost and revenue synergies. "We want a company because it has successful management. Why should I destroy what I have paid for? If we decided to buy, I wouldn't have any problem making an integration work at Hershey," declares Mr Brabeck.

Indeed, he finds the reaction to his brand of pragmatism a little frustrating. He points out that the same analysts who today criticise Nestlé for thinking of buying big rivals were only two years ago asking what it was going to do with its piles of cash. "Nestlé's long-term view is perhaps more coherent than the view of some of the analysts," he suggests.

Deal doubts

The more serious charge, levelled by those same analysts, is that Nestlé is only stepping up its pace of acquisitions because its organic growth is running out of steam. Certainly, the group is likely to miss its 4% target for sales-volume growth this year. In the first six months, growth slipped to 3.5%, from 4.6% in the same period last year.

Nor does Nestlé compensate for its more sedate growth with sparkling profitability. Although its operating margin is at last rising again, increasing to a decent 11.7% this year, that is not much different from the 11.1% at smaller Danone, and it is well shy of Unilever's reported 15%—though Unilever, unlike Nestlé, strips out restructuring costs.

But this assessment of Nestlé's financial performance ignores two things. The first is that Mr Brabeck has been reducing the group's reliance on highly profitable but mature businesses, such as coffee—the profit margin for Nescafé is around 40%—by moving quickly into faster-growing areas that require initial heavy investment, such as pet food, water and ice cream. Over the past three years, he has turned Nestlé into the world leader in the first two. In ice cream, the company is now vying with Unilever for the top spot, following the purchases of Ice Cream Partners (Haagen Dazs), Schoellers in Germany and Dreyers in America.

This activity has depressed profit margins. As a result, Mr Brabeck is now concentrating on improving efficiency. His first cost-cutting programme, which involved the closure or sale of 114 factories, has saved more than $2.5 billion since 1997, well ahead of expectations. Nestlé is now rolling out three programmes to increase efficiency at second-tier factories, cut administration costs and harness group-wide economies of scale in purchasing and research. Total savings should exceed $3.5 billion over the next four years.

John McMillin, an analyst at Prudential Securities, expects around 70% of these savings to be ploughed back into advertising and promotions, rather than feeding straight through to the bottom line. This reinvestment is typical of Nestlé: under both Mr Brabeck and his predecessor (and mentor), Helmut Maucher, the company has eschewed short-termism, preferring to think ahead in decades. "Shareholder value is for me nothing but a paradigm that says focus equals efficiency and that complexity is inefficiency," says Mr Brabeck. "The problem is that when you carry this paradigm out over a longer period, you are basically starting to kill your own business. You run out of growth."

Nestlé, by contrast, embraces complexity. It has factories in 84 countries, 260,000 employees and 6,000

brands, give or take a few. Mr Brabeck claims that the skills his company has developed as it has expanded are hard to replicate and are thus a real business advantage. But it is an advantage that makes a difference only over the long term. In the short term, having a local presence in so many countries, refusing to cut its long tail of smaller brands (as Unilever is doing), and properly managing both, is not cheap. Nestlé's hugely complicated matrix structure of product and regional responsibilities creates costs. “Applying global management principles to one of the most decentralised businesses in the world is a colossal management challenge,” says Nic Sochovsky, an analyst at Merrill Lynch.

Although that makes Nestlé a difficult “story” to sell to investors, Mr Brabeck is not perturbed by such considerations. To him, what counts is success on the ground. In South Korea and China, Nestlé lost money for a decade; today, both countries are highly profitable. While competitors pulled out of Russia during the 1998 currency crisis, Nestlé stuck it out and doubled its market share in chocolate, coffee and ice cream over the following 18 months, achieving market leadership in all three areas. The company's long-term view of the bottom line may be somewhat unfashionable, but it has also been rather successful.

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Hershey Foods

Bitter times for a sweet town

Aug 29th 2002 | HERSHEY, PENNSYLVANIA
From The Economist print edition

Fear and loathing in America's chocolate town

MILTON HERSHEY must be turning in his grave. The company he built into America's biggest chocolate maker, with such gooey offerings as Hershey's Kisses and Reese's Peanut Butter Cups, is trying to put itself up for sale. Ironically, it is the Hershey Trust, to which Milton handed his 77% voting stake in Hershey Foods in 1918 after the death of his wife, Kitty, that now seems determined to deliver his life's work into the hands of a competitor—perhaps even a foreign one.

The trust, though, is not really to blame. Its job is to finance a school for disadvantaged students set up by the childless Milton and Kitty, both devout Mennonites, and to safeguard an endowment that, at $5.4 billion, is now one of the richest educational institutions in America. Granted, that is a lot of money and explains why the students—who had to milk cows by hand until 1989—have a full-sized football stadium, marbled halls and chauffeurs to ferry them to class. But the trust wants to expand the number of students from 1,200 to 1,500, and it has a clear fiduciary duty to diversify its portfolio. The stake in Hershey is its only investment.

The trouble is that Hershey is not a normal company. Hershey the business and Hershey the town (in Pennsylvania) are intricately intertwined. The self-styled “sweetest place on earth” features streets such as Chocolate Avenue and Cocoa Avenue, and street lights shaped like the firm's Kisses. Milton Hershey designed everything in the town, from its parks to the sewerage systems, to improve his workers' lives. Today, Hershey employs half the town's 12,000 residents. Many managers, including a former chief executive, are graduates of the trust's school.

Hence the community's outrage at a possible change of ownership. Pennsylvania's attorney-general, Mike Fisher, is capitalising on local ire and taking the trust to court. Monty Stover, a 102-year-old former executive who knew Milton Hershey personally, is typical in his disdain for the planned sale: “Mr Hershey would never have considered this proposition. He would have said: ‘Gentlemen, you are wasting your time and mine. Goodbye.' ”

This means that Hershey will be tricky to integrate for any of its suitors, believed to include Nestlé, Philip Morris's Kraft subsidiary and Cadbury-Schweppes. Kraft may have the edge, not only in being American, but also because Hershey's current boss, Rick Lenny, used to be a senior executive at Nabisco, which Kraft swallowed in 2000. But then again, Nestlé already has a commercial relationship with Hershey, which distributes its KitKat bar in America. And the Swiss group has already weathered a similar “hostile” takeover: in 1988, it bought Rowntree, a British confectionery maker with strong links to its home town of York.

In the end, the resistance of the people of Hershey may not be enough to stop their company being snatched from under their noses. After all, if the taste of Hershey's chocolate—which, legend has it, is made with sour milk—is not enough to put off the bidders, what is?

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German airlines

Welcome to the cheap seats

Aug 29th 2002 | FRANKFURT
From The Economist print edition

The battle to offer Germans cut-price flights is warming up

GERMANS are getting used to offers of cheap flights. Ryanair, an Irish no-frills airline, will fly you from Hahn, 100km (60 miles) outside Frankfurt, to Stansted, north of London, for *euro*9.99 ($9.82). Deutsche BA, a subsidiary of British Airways, is offering flights within Germany from *euro*34, although around *euro*100 is more typical. And this week, Lufthansa, the national flag carrier, declared that it was "making flying within Germany better value than ever".

From the end of October, Lufthansa will sell some seats on flights within Germany for as little as *euro*88 each way. In November, some 200,000 seats, or up to 10% of its domestic capacity, will be on offer at the lowest fares. Lufthansa also plans to cut fares to and from Britain and Turkey, and later other European destinations.

Until now, Lufthansa has treated low-cost competition with disdain. Even now, it says that it is not tackling the upstarts head-on—its new prices are still way above those of true budget airlines. On the domestic front, in particular, it sees little need to defend itself against the small fry. The new fares, says the airline, have less to do with fighting low-cost carriers than with filling empty seats, mainly on off-peak flights. Lufthansa's prime targets are people who travel by car or train. By offering these marginal passengers cheaper fares, it hopes to increase the proportion of seats occupied on domestic flights, now 62-65%, by about five percentage points.

That said, Lufthansa does face some direct, low-cost competition on routes between big cities at home, as well as on international routes. Across Europe, fares are under pressure, thanks to the weakness of the world economy as well as the challenge from new airlines. Lufthansa is the third big European carrier, after British Airways and the Netherlands' KLM, to cut fares within a couple of months.

Yet Lufthansa's main response to the low-cost operators is not fare cuts, but a no-frills carrier of its own. It has consistently said that it will not start a low-cost airline under its own banner, for fear of cannibalising its own traffic and damaging its brand. However, Eurowings, a German regional airline of which Lufthansa owns 24.9%, has said it will launch a low-cost carrier, called germanwings (sic), in October. Lufthansa has an option to increase its stake in Eurowings to 49%.

The German low-cost market is even starting to look crowded. EasyJet, a British no-frills carrier, has an option to buy Deutsche BA. Ryanair is expanding its operations at Hahn. Virgin Express is due to start flights from Cologne-Bonn airport in December. And TUI, a big travel group known until a few months ago as Preussag, and Germania, which already flies cheaply from Berlin to Cologne-Bonn and Frankfurt, announced this week that they are joining forces to launch a new low-cost airline. There will not be room for everybody to make money. There should, though, be more bargains on the way.

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Pharmaceuticals

Trouble in the making

Aug 29th 2002
From The Economist print edition

Sloppy manufacturing comes under fire, but inefficiency is the real problem

Get article background

FOR all the glamour of invention, the latest blockbuster medicine, like the hottest new fashion, can unravel if manufacturing falters. Witness the slew of drug makers that have fallen foul of the Food and Drug Administration (FDA), their regulator in America, over how they make their pills and potions. Hardest hit, so far, is Schering-Plough, which has been taken to task for failing to meet FDA standards at four plants. In May, the company signed a decree promising to do better and paid a $500m settlement to the agency. Eli Lilly, Abbott and Wyeth are among other firms to have drawn frowns from the FDA.

Some of these firms' woes come from turning out products containing too little medicine or too much contamination. This alarms consumer groups, such as Public Citizen, which worry about the FDA's ability to police manufacturing given its meagre manpower and funding. Last year, the agency performed only about a third as many inspections as it carried out in 1980.

But headline-grabbing lapses in quality are the exception rather than the rule, says G.K. Raju, executive director of the Pharmaceutical Manufacturing Initiative at the Massachusetts Institute of Technology (MIT). A far wider problem is inefficiency in the manufacturing process.

Although early research and development (R&D) is usually seen as the hard part of producing a drug, manufacturing is not easy either. For chemical-based drugs, simply producing the active ingredient can take a dozen chemical reactions, followed by formulation and packaging. Before they can market their medicine, drug makers have to register their manufacturing process with the FDA, which checks that it is turning out uniformly safe and effective doses and that the company has systems in place to sample product batches for quality.

At this point, however, innovation slows down dramatically, according to Mr Raju. Since companies are in a rush to get their products to market, they tend to take their laboratory-scale methods and expand them to industrial proportions, rather than think of new ways to make pills on a much bigger scale.

Moreover, much as companies boast about their prowess in R&D, manufacturing is saddled with old equipment and techniques. Few drug firms have top manufacturing people on their executive boards. According to Charles Cooney, also at MIT, so long as companies see manufacturing simply as a matter of compliance with regulatory requirements, rather than an opportunity to cut costs and production time, change will be slow in coming.

There are lessons to be learned from other industries, according to Doug Dean of PricewaterhouseCoopers. The chemicals industry, for example, keeps its production lines running in continuous processes that are more automated and efficient than the batch methods used by drug makers. Genzyme, an American biotech firm, has copied this approach to get more out of its production sites. Mr Dean wishes that drug makers would look even further afield, to the semiconductor and aviation industries, which do better on turnaround times and process uniformity.

The FDA is doing its bit to promote change. On August 21st, it announced plans to revamp the way that it oversees drug manufacturing. It intends to give priority to those products and processes that pose the greatest risk to public health, to root out inconsistencies in regulation, and to promote new manufacturing technologies among pharmaceutical executives and its own inspectors.

Mr Raju hopes that companies will see that innovating makes economic sense. At the moment,

manufacturing consumes 25% of the average drug company's revenues, and it takes up to six months to get a product through manufacturing and on to pharmacy shelves. Mr Raju reckons that more efficient manufacturing could translate into $500m of savings over the lifetime of a $1 billion-a-year blockbuster drug. As big pharmaceutical firms come under increasing pressure from patent expiries and weak drug pipelines, such savings are sure to grow more appealing.

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Russian electricity

In need of shock therapy

Aug 29th 2002
From The Economist print edition

To avoid a full-blown power crisis, Russia must reform its sprawling, crumbling electricity industry

AP

Electricity is cheap, but not always available

STRONG, sober and presiding over a growing economy, Vladimir Putin has every chance of being re-elected as Russia's president in just under two years' time. But if he wants to be remembered as the leader who laid the foundations for future economic growth, Mr Putin must tackle the reform of Russia's long-neglected power industry—and quickly.

Artificially low electricity prices have been one of the main forces driving Russia's recent economic expansion. The government sets the rates, and has powerful motives for keeping things as they are. It wants to make sure that Russian households remain lit, and that firms stay afloat. This is nice for the Russian people but less so for United Energy Systems (UES), the world's biggest electricity group in terms of installed capacity. Captive to the government, which owns a majority stake, cash-strapped UES has watched its equipment crumble. If present trends continue, Russia will soon face an electricity crisis.

This autumn, Russia's Duma (parliament) will debate a bill to reform UES, which owns the national grid and controls about 80% of Russia's generating capacity. The bill lays the groundwork for breaking up UES and liberalising the electricity market in order to attract investment and usher in competition in generation.

Electricity is a political issue the world over, but especially so in Russia, still in the midst of post-communist transition. The debate over reform pits the central government against regional governors. Although Moscow controls wholesale electricity tariffs, the governors control retail prices. They are adamant about keeping this power so they can protect industries to which they have ties. Moreover, they are determined to maintain low electricity prices for households, which pay about $2 a month to keep their lights on, roughly the price of a cheap bottle of vodka.

This cannot last. If the industry is to attract investment, wholesale electricity prices need to double by 2005, according to UES. Philip Vorobyov of Cambridge Energy Research Associates estimates that the power industry needs between $20 billion and $50 billion in investment over the next ten years. Eighty gigawatts, almost half of Russia's generation capacity, must be retired over the next 20 years as it reaches the end of its productive life, while 120 gigawatts needs to be added, more than the total installed capacity of France. If there is no surge in investment, Russia will suffer from nationwide electricity shortages some time between 2003 and 2008. Many regions have already been stuck without power.

The government has already taken steps to avoid this dark fate. Mikhail Kasyanov, the prime minister, issued a decree on electricity reform in July 2001. This created the grid company and system administrator as legal entities within UES. The next step is to cobble together hundreds of disparate generators to create ten giant wholesalers that would account for 45% of Russia's generation capacity. Then the government will break up the vertically integrated regional power companies. Up to 15% of generation capacity will be sold on the open market by 2005, according to the plan. Sergei Dubinin, deputy chief executive of UES and a former head of the central bank, wants to sell stakes in two or three wholesalers to western utilities.

One crucial question is the fate of electricity prices. Originally, the plan envisaged a politically independent federal commission that would regulate both retail and wholesale tariffs. Not surprisingly, though, politics has dominated price regulation. With the 2004 presidential poll nearing, the pace of tariff increases has started to slacken. The government plans to raise prices by just 11% in 2003 in dollar-adjusted terms after a 32% leap in 2001.

Now comes the hard bit

With the Duma due to debate the power bill as early as September, things will get even trickier. On August 30th, a committee of lawmakers and government officials was to meet to issue amendments to the bill. Analysts expect the committee to refuse to allow the federal government to set retail prices—and the government is expected to cave in over this issue. However, the government should be able to get the Duma to go along with breaking up and reorganising regional electricity companies, says Fyodor Tregubenko of Brunswick UBS Warburg. That would be a blow to the regional governors, as it would create larger regional companies too big to remain under their thumb.

Conscious of the stakes involved, foreign investors are starting to throw their weight around as well. They own one-third of UES shares and have not forgotten how, two years ago, Anatoly Chubais, head of UES, tried to sell generators on the cheap to well-connected local tycoons. According to David Herne, portfolio manager at Brunswick Capital Management and a UES board member, relations between the management and minority investors have since improved, but problems persist.

Earlier this month, for instance, investors were shocked to discover that UES had signed what they contend was an unfavourable contract with Renaissance Capital, which has control over more than 25% of Kuzbassenergo, a large UES subsidiary. The agreement makes it easy for Renaissance to gain the generation capacity of Kuzbassenergo cheaply in a future tender. Unfortunately for UES shareholders, other financial investors are positioning themselves for similar deals.

Despite the problems, foreign utilities are starting to sniff out opportunities. After all, Russian electricity rates are forecast to rise faster than those in Western Europe. Foreign firms also want to export power to Western Europe, provided they can secure long-term contracts. E.ON, Germany's largest utility, has agreed to draw up new investment projects jointly with UES. Other companies that have shown interest include Electricité de France, AES of the United States and Italy's Enel.

Even before the Duma passes the reform bill, UES is seeking out new investment. It will hold an auction later this year for a stake of around 25% in a power plant near St Petersburg. This would be the first tender in the industry aimed at foreign strategic investors. Meanwhile, Yukos, a Russian oil company, is positioning itself to buy generating capacity, and thus ensure control of its electricity supplies.

Ultimately, the reform bill's chances of creating a liberalised, investment-friendly electricity market will depend largely on Mr Putin himself, since parties allied with the Kremlin hold the majority of votes in the Duma. The real test, however, will be in the implementation. Mr Vorobyov questions whether Mr Putin will turn the federal commission that sets wholesale prices into a truly independent body, empowered to set tariffs that reflect true costs.

Doing this would have an electric effect on UES's share price and encourage foreign utilities to buy into generation capacity. But Mr Putin may yet prove unwilling to bear the political costs of reform: higher inflation, lower growth in the short term and social disquiet. If so, Russia's crippling power shortages will only get worse.

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Public relations in China

Puffing away

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From The Economist print edition

A nation of 1.3 billion waiting to be spun

THE public-relations industry arrived in China in 1993, reckons Li Hong, the local boss of Fleishman-Hillard, the world's second-largest PR agency. That was the year when commercial advertising in print media was liberalised. It was also a time when memories of the Tiananmen Square massacre had begun to fade—enough, at least, for bosses of foreign multinationals to resume kowtowing in Beijing. Hardly a week went by without a new joint venture or product launch that needed professional hype.

Since then, China has been perhaps the fastest-growing PR market in the world. PR revenues worldwide fell by 3% last year; but they rose by 33% in China, to $242m. That makes China the second-largest market in Asia after Japan (which is still about twice as big). Not only is there a boom in local agencies—China now has 10,000 PR people, according to a trade association—but every big international agency is investing. In June, Ogilvy, part of WPP, a marketing giant, bought H-Line, a leading local agency, to become the largest PR firm in China.

Multinationals investing in China still account for most of the demand for PR services, and China's entry into the World Trade Organisation helps. Not only are more foreigners hoping to familiarise Chinese consumers with their brands, from Nokias to BMWs, and hiring PR people to get them mentioned in the local press. They are also using PR firms for their “deep localisation”, says Matthew Anderson, Ogilvy's president in Asia. This includes advice on how to communicate with employees and even on finding talent.

The biggest development, however, is soaring demand for PR among Chinese companies. For much of China's (mostly state-owned) corporate sector, PR remains an outlandish concept. Increasingly, however, Chinese firms are courting foreign capital. Companies such as AsiaInfo, a provider of Internet infrastructure that was the first Chinese company to list on America's Nasdaq stockmarket, happily pay for hand-holding from international PR firms for their first contacts with investors.

Others, such as Haier, the leading Chinese white-goods maker, have international ambitions for their brands and are hiring PR firms to seek out consumers. Others still, such as the thousands of textile factories that are springing up as rich-country import quotas fade out, hire agencies to reach western clothes retailers. And some of China's private-sector firms become clients hoping to be introduced to influential party cadres: quite a few PR people, including Mr Li, are former government officials. Small wonder that Fleishman-Hillard reckons its present customer breakdown—20% Chinese and 80% multinational—will reverse in a matter of years.

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Face value

Logan's run

Aug 29th 2002
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Can Don Logan repeat at AOL what he did for Time Inc?

OF ALL the management changes that have shaken AOL Time Warner in recent months, none captures the shift in the balance of power within the troubled media giant better than the recent elevation of Don Logan. This time a year ago, Mr Logan presided over a demoralised Time Inc publishing empire, whose staff feared that their distinctive editorial culture was being trampled on by the eager young upstarts from AOL, led by Bob Pittman, to whom Mr Logan reported. A year on, Mr Pittman has been ejected from the group, and Mr Logan has been promoted to run one of its two new umbrella divisions under Richard Parsons, the chief executive. His responsibilities include cable, magazines, book publishing and interactive video. But his biggest headache will be sorting out all those former antagonists at the struggling AOL.

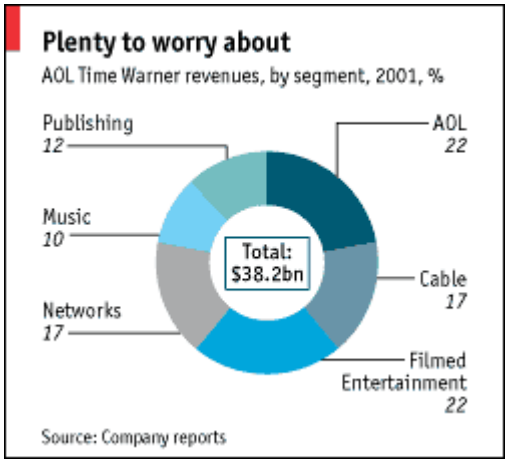
There is a delicious irony in this appointment. For one thing, Mr Logan has long been sceptical about the transforming power of the Internet, and has never minced his words on the subject. In 1995, when asked about Pathfinder, then Time Inc's web effort, he replied: “It's given new meaning to me of the scientific term black hole.” Mr Logan must now oversee the attempt to extract AOL from its own black hole: its earnings before interest, taxation, depreciation and amortisation dropped by 27% year-on-year in the second quarter. The SEC is investigating accounting practices at the division.

Mr Logan and many of his Time Inc colleagues were especially resistant to the early brash attempts by AOL types to treat magazines as just another marketing tool, and the company as a relic in need of a shake-up. Although the 79-year-old Time Inc's titles have themselves embraced the world of celebrity and show business—Tom Cruise, “Spider-Man” and “Star Wars” have each graced recent *Time* covers—a sense of superior editorial mission still lingers in the Time-Life building. This fierce independence collided with the aggressive efforts by AOL to turn publishing into a cross-promotional vehicle. Now, it is 58-year-old Mr Logan's turn to give the orders to the young Turks at AOL.

Yet, incongruous as this burly, plain-talking publishing boss may seem at the high-tech AOL campus in Dulles, Virginia, Mr Logan's appointment could turn out to have been inspired. The task at AOL—a close-knit culture marked by complacency—is similar to that which greeted him when he joined Time Inc in 1992, as chief operating officer. Then, the publishing group was a bureaucratic, rather snobbish place, beset by infighting.

Mr Logan, a no-nonsense southerner, had no time for that. He set about turning Time Inc into a more meritocratic, less political organisation, with a more decentralised structure. Not that the group has entirely shed its sense of privilege or creature comfort. But Mr Logan has taken harsh decisions, including cut-backs and firings, when necessary.

As businesses too, AOL and Time Inc have more in common than meets the eye. Each relies on a mix of subscription and advertising revenues. Like some magazine titles, AOL needs to reverse slowing subscriber growth, and to fight aggressive efforts by its competitors, notably Microsoft's MSN, to hoover up its customers.



A head for numbers

Capturing subscribers is one of Mr Logan's specialities. In the 1970s and 1980s, he worked at Southern Progress, a publisher in Alabama with such titles as *Progressive Farmer* and *Southern Living*, rising to become its boss in 1986. A one-time mathematician and computer programmer at NASA, he is at home mining customer data for marketing ideas. “He instantly spots the relationship between numbers,” says a former colleague.

There are other parallels, too. When Mr Logan turned up in New York, fresh from Alabama, observers said there was no more growth to be had from magazines; profits at Time Inc were shrinking. Yet he went on to preside over 41 consecutive quarters of year-on-year profits growth. In the first half of 2002, Time Inc increased its share of the American magazine market by 1.4 percentage points to 24.9%, its highest first-half share since 1989. Mr Logan's hallmark was “brand extension”: *Time* begat *Time for Kids*, *People* begat *Teen People*, *People en Espanol* and *In Style*, and so on. Thanks to spin-off launches and acquisitions, under his command the number of Time Inc titles grew from around 20 to 140.

It would be foolish to underestimate the job that Mr Logan and Jonathan Miller, AOL's new boss, have taken on. The company needs stability, yet the pair have already begun to conduct purges. AOL also needs to secure wider cable access. To this end, and under an agreement concluded last week, AOL Time Warner will buy AT&T Comcast's 27.6% stake in Time Warner Entertainment, a mix of cable and content assets. This gives AOL the chance to deliver broadband services to many more cable homes.

Moreover, there are fierce internal debates at AOL over strategy: how hard should it push broadband? Should it concentrate on software or content? Mr Logan will probably treat Internet access as a consumer product that needs to be tailored more specifically to different customer groups. Even this, however, will involve changing the mindset at AOL, which long thrived on its one-size-fits-all Internet service.

Whether he gets it right or not, Mr Logan's elevation at least satisfies a hunger in the media industry right now for low-key bosses. He can be tough. Yet where Mr Pittman was abrasive and relished the limelight, Mr Logan prefers a good book to a Manhattan cocktail party, and fishing for bass over dining at the Four Seasons. “He'd rather walk than take the company car,” says one industry friend. In this, he and Mr Miller are a good match: the antithesis of celebrity executives. As AOL Time Warner battles to restore credibility and turn AOL round, the man who never sought the media limelight will now be squarely in it.

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Fund management

Mug's game

Aug 29th 2002
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Does active money-management make any better sense than passive?

EQUITY markets in America and Europe have recently been showing tentative signs of a recovery from their late July lows. Yet investors—in both actively managed funds and in funds that mirror a particular stockmarket index—are smarting still. The average active fund in America has lost over 22% (fund-management fees included) since the end of December 1999, according to Lipper, a company that measures fund performance. In Britain actively managed equity funds have lost 31%. Passive funds, however, have fared even worse, on average. Pure index funds have lost over 27% in America since December 1999, and 32% in Britain.

The choice between active and passive funds is like steering between Scylla and Charybdis, the more so since disillusionment with equities in general set in. Anger is growing—if the newspapers' financial pages are anything to go by—with those who manage mortals' money. Particular scorn has been poured on those poorly performing active managers who claimed that it was precisely during tough times that they would come into their own against indexed funds. In Britain two-thirds of active fund managers underperformed the index last year, even before the fees that they charged are subtracted. These people are handsomely rewarded for losing money. Each year they pocket 1-2% of the assets they manage, on top of initial charges of as much as 5%. Indexers, by contrast, charge only 0.5% a year, with no upfront fees.

Can't fool all the people all of the time

An average fund manager will beat the market some of the time. Over the long run, though, the great majority of fund managers will do no better than the market average, particularly once their charges are taken into account. The chances are slim of finding one of the blessed few who can show real, sustained skill in stock-picking. Even if you find one, you may discover that what made him good in one economic period will serve him less well in the next.

Believers in the so-called efficient-market hypothesis, developed by American economists in the 1960s, have tried to demonstrate the impossibility of consistent outperformance. They argue that all useful information that is available to market participants is already factored into a company's share price.

Additional analysis of a share by, for instance, taking a closer look at a company's books or talking to its management—as well as all attempts at discovering patterns in price movements—will be futile. Fund management, says the efficient-markets crowd, is a zero-sum lottery in a random world.

This theory opened the door to those offering merely to track the index. The first S&P 500 index fund was started by Wells Fargo in 1973; it held all the stocks in that index. That fund was not open to the general public, but three years later Vanguard, a mutual-fund manager, offered investors an index fund that held all the stocks in the S&P 500 in proportion to their market capitalisation.

Index tracking grew hugely during the bull market of the 1980s and 1990s. In the bear market since early 2000, people have not pulled out much money from index funds—or at least, not yet. In America, the record levels of mutual-fund redemptions in June and July came mainly from actively managed funds. The world's biggest indexer, Barclays Global Investors, with $400 billion in index funds, claims net inflows (institutional as well as retail money) of $33 billion in the first six months of this year.

Not everybody buys the efficient-markets hypothesis, however. George Soros, a well-known speculator, thinks he made his money because markets often over- or undervalue things. He also challenges the view that share prices are simply a passive reflection of underlying value, or of the expected earnings of a company. A high share price might, for example, trigger certain actions: a public offering of a company's shares, for example, or a merger or an acquisition. A low share price, meanwhile, might stop plans for an initial public offering or a merger. This is what Mr Soros calls the market's “reflexivity”.

If knowledge of such a two-way relationship between share prices and assets can be put to good use, a fund manager might consistently do better than the market. Peter Lynch, formerly of Fidelity Investments, showed that a more old-fashioned investment technique—looking for good companies that the market fails for a time to appreciate—can also outperform.

Yet a few examples among a cast of many thousands of fund managers offer only small consolation to the average investor. Unless he wants to punt on fund managers as well as on equities themselves, he will almost always be better off—or, these days, rather less worse off—putting his money into an index fund.

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Trade

Steel, rolled

Aug 29th 2002
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A trade war averted, or just a temporary truce?

AP

Taking the measure of tariffs

AS REVERSALS of fortune go, America's steel industry has suffered a big one. Earlier this spring, steel makers got the deal of their dreams when George Bush slapped tariffs of 30% on 12m tonnes of foreign steel. Last month Mr Bush decided to take back some of his earlier gifts. In an attempt to placate Europeans, the administration announced new exemptions for around half the previously affected European steel products.

If betrayal by the White House were not enough, America's International Trade Commission (ITC) has now added insult to injury. In a dispute over imports of cold-rolled steel, a product widely used in the car industry, the ITC ruled that claims of illegal foreign dumping were already being remedied by the Bush tariffs. The commission rejected further attempts to slap on emergency duties. Has America recovered its free-trade credentials?

Not quite. The original tariffs are still in place, and still causing pain for some foreign producers. Meanwhile, America's steel makers reap healthy profits these days, as the ITC probably noticed. Even so, the climbdown by the Bush administration, along with the ruling by the trade commission, goes a long way to appease the European Union, which was on the brink of putting retaliatory tariffs on more than $2 billion of imports from America.

For now, that threat has receded. The European Union says the latest American moves are welcome. Yet other trade rows rankle. The outrage over America's generous farm bill was not wholly mitigated by its more recent proposal to slash farm subsidies in the Doha round of trade talks. This week's Earth Summit in Johannesburg has put these—as well as Europe's even more generous subsidies—once more under the spotlight. In steel, the cold-rolled case is not yet over. The same charges against 15 other countries are expected to be heard in October, though it would be a surprise if the outcome were different.

Although the steel decisions may mark the end of the worst period in recent EU-American trade relations, nobody is betting on a new golden age of free trade. A new era, however, is about to start at the World Trade Organisation (WTO). This week Supachai Panitchpakdi, a former deputy prime minister of Thailand, succeeds Mike Moore of New Zealand as the WTO's director-general. In 1999, the Americans tried to block Mr Supachai's appointment, but now they insist they are ready to work with him in pushing forward the Doha round. It will, however, take an all-out commitment from America and Europe to get things moving again before next year's ministerial meeting in Mexico. Mr Supachai, for his part, wants especially to promote poor countries' interests.

Shortly after the anti-dumping ruling, Bethlehem Steel, one of the companies bringing the cold-rolled complaint, expressed disappointment. More tellingly, it decided to close a Pennsylvania steel-pipe mill. More closures across the country would do more for the steel industry than going begging to Washington.

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Gay networks at investment banks

Out and proud

Aug 29th 2002
From The Economist print edition

Banks encourage gays to come out

TO JUDGE from stories of nights at lap-dancing clubs, the sexual-discrimination lawsuits and the general atmosphere on trading floors packed with hormone-driven young men, you might expect the culture of an investment bank to be intolerant of homosexuality. In fact, several banks, including UBS Warburg and HSBC, have recently started social networks that seek to support gays and lesbians. Some that have not, such as Morgan Stanley, are thinking about it.

With one in ten people gay, says Jiten Patel, an equality and diversity manager (yes, they really exist) at HSBC, many gays who have not come out at work may waste time and energy worrying about their colleagues finding out. Banks are treating the act of coming out at the office with sensitivity. The networks at HSBC, J.P. Morgan Chase, UBS Warburg, Merrill Lynch and Goldman Sachs allow gay and lesbian employees, some of whom may not have told their families, to join anonymously if they wish.

J.P. Morgan Chase has the oldest gay and lesbian network, with 400 members worldwide, called Pride. It uses the network for graduate recruitment, as do the other banks. Taking the business purpose one step further, however, J.P. Morgan Chase also uses the network to prospect for rich new clients. After Pride sponsored the most recent Stonewall dinner in London, a gay and lesbian event, one founding member, Robert Ioannou, a private banker, says he made several new business leads.

For some banks, starting a gay and lesbian network simply recognises reality. At Goldman Sachs in New York, a group started their own informal network in 1999, before getting official sanction. At Morgan Stanley in the mid-1990s, an unofficial group held cocktail parties in Manhattan and called themselves the BBOMS, or the Beautiful Boys of Morgan Stanley.

What do heterosexuals think? They want to know if the network is really a dating service and who is a member, says the founder of a gay group in London. So far, it is mostly gay men and women in banks' back offices—information-technology and trade-settlement staff—who are joining the networks. However sincere the support from your senior managers, it takes more guts to come out on the trading floor.

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Enron and the economics of greed

Prosecutor's dilemma

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From The Economist print edition

Enron's prosecutors wonder whether greed is worse than lying

NOW that federal prosecutors have persuaded Michael Kopper, a former Enron executive, to plead guilty, eyes have turned to his superiors: Kenneth Lay, the bust energy-trading giant's former chairman, Jeffrey Skilling, its former chief executive, and Andrew Fastow, its former chief financial officer. Mr Fastow seems in particular jeopardy, having made $30m-odd from running off-balance-sheet partnerships, called special-purpose entities (SPEs), used to keep debt conveniently off Enron's balance sheet. He may be the first of the three to face criminal charges, but for what?

The complaint by the Securities and Exchange Commission (SEC) against Mr Kopper points the way to the arguments that Mr Fastow might face. It makes much of the personal “enrichment” of Mr Kopper and Mr Fastow, and tells a sordid tale of lies used to defraud Enron of millions of dollars racked up by company insiders. Strangely, however, the complaint dwells more on the financial economics than on the specific laws broken to reap the gains.

The SEC's strategy pays unwitting homage to economists' notions of risk and return. This is the idea that big pay-offs come only from taking big risks: the higher the risk, the higher the pay-off. The SPEs in which the two men invested and from which they profited, says the SEC, were not genuine investments at all. Instead, any capital invested was guaranteed by Enron, so Mr Kopper and Mr Fastow were shielded from loss. Thus, the money they got was not a return on their investments, but merely old-fashioned theft.

To be sure, the sums were generous. Mr Kopper put $25,000 into one partnership and received $4.5m. The same gain was reaped by a family trust of Mr Fastow's. To the problems of accounting, disclosure, and conflicts of interest at Enron, the SEC now appears to be adding a fresh charge: getting rich by flouting the laws of risk and return.

Why the new focus? One reason may be that Enron's board authorised Mr Fastow's conflict of interest; its auditors, Andersen, signed off on the accounting of the SPEs. Following ill-gotten money might be the best strategy left to hold Enron's executives responsible. There is some risk to this strategy. If Mr Fastow's winnings are cited in court, he needs only to compare his fees with those of investment bankers arranging mergers and acquisitions, underwriting shares, and putting together fancy financial deals.

Compared with other rainmakers of the late 1990s, Mr Fastow might not look so greedy. Investment banks earned up to 7% in fees for money they helped to raise in initial public offerings. Frank Walsh, a former director of Tyco, took home a $20m fee for brokering the purchase of CIT, showing how eager other executives were to play at investment banking. This summer, when investment banks carved CIT out of Tyco, they netted $184m in fees. These returns were all legal, even if you think they were excessive. Prosecutors may have a hard time showing that Mr Fastow's returns were much different.

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Predatory lending in America

Hunting the loan sharks

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Lawmakers, state and federal, are mounting an attack

THE stories of victims of predatory lenders—typically low-income minority families, single mothers and the old—are awful to hear. People are persuaded to take loans priced way beyond their means, usually secured on their homes; eviction is often the price of default. The experience of one woman, a 90-year-old widow from the Bronx who was almost thrown out of her home, inspired Aurelia Greene, a New York state lawmaker, to sponsor a bill to tackle predatory lending. Ms Greene's bill is just one of many. In the past few years tough laws have been passed in North Carolina, Georgia, California and Ohio, and more are on the way elsewhere. Bills loom in both houses of Congress.

As with pornography, consumer activists and legislators say they know predatory lending when they see it. In fact it is tricky, some say impossible, to define particular types of lending as predatory. Most of it is sub-prime, meaning to people with bad or non-existent credit records. The loans carry a higher rate of interest than do prime loans, to compensate for the higher credit risk. What calls itself the sub-prime industry argues that a practice that seems damaging can actually help some borrowers: you have to look at each case, they say, not apply blanket bans. Some people, indeed, argue that except for fraud—false information or faked signatures—there is no such thing as predatory lending, since borrowers are not forced to take the loans.

For years, these arguments kept tough legislation at bay, and the sub-prime market grew from $20 billion in 1993 to $150 billion in 1998. In recent years, however, regulators and politicians have been hearing ever more stories of people trapped in debt because of crippling rates and fees. In 1990-98, despite a strong economy and falling rates, the rate of home foreclosures rose fourfold.

Sub-prime lenders are particularly strong in black and other minority areas. According to a study by the Department of Housing and Urban Development, sub-prime loans are five times as common in black neighbourhoods as in white ones. Despite considering anti-predatory lending legislation, Congress is likely soon to pass a new bankruptcy law that would sharply limit consumers' ability to discharge their debts and start with a clean slate. Predatory lending would then become even more of a burden on its victims.

The new laws emerging in states and cities across America try to label certain loan characteristics as predatory, so as to ban them. Most also reduce the thresholds at which a loan is considered high-cost and subject to additional rules. In Congress, a predatory-lending bill sponsored by Senator Paul Sarbanes would prohibit balloon payments, among other things, in which the bulk of a loan is left unpaid at maturity, often without the full understanding of the borrower who then cannot repay.

Mr Sarbanes's law and the others may stop some of the most egregious practices of rogue sub-prime lenders. They will not solve the real problem, which is lack of competition. Despite the sub-prime market's attractive returns, prices have not fallen as others come in. Sub-prime lenders have grown in number, and though they compete with each other for new customers, they do so by spending money on marketing and door-to-door salespeople, not by offering lower prices.

Why is this? According to Fannie Mae, the government-sponsored mortgage-lending agency, up to half the people who take out sub-prime loans could qualify for a prime loan, which charges as much as four percentage points less interest, a huge saving over the 30-year life of a mortgage. The reason that many sub-prime borrowers do not demand prime loans or shop around for the best sub-prime price is a lack of basic financial knowledge.

If sub-prime borrowers could be helped to make better decisions, says James Carr, head of research at

the Fannie Mae Foundation, sub-prime lenders would have to bring rates down, and many would get prime loans. Mr Carr wants third-party assistance for borrowers: people who can review loan agreements, advise on how to build a credit record and warn against particular lenders. Such a programme would be cheap, he says, because sub-prime lending is so concentrated in certain neighbourhoods.

Another source of hope for victims of predatory lending could come if the securitisation market, which buys lots of sub-prime loans, became more vigilant about whom it buys loans from. Two predatory lending bills, in Georgia and New York state, make buyers responsible for predatory elements in their portfolios. Increasingly, says Kathleen Engel, at the Cleveland-Marshall College of Law in Ohio, borrowers are looking for redress further along the lending chain, bringing claims against participants in the secondary market for the predatory acts of mortgage brokers and originators. But the effect of the new laws, says Michael Williams of the Bond Market Association in New York, could be simply to push secondary-market participants, fearful of liability, out of the sub-prime business altogether.

The risk of wrapping the sub-prime market in a web of laws against predatory lending is that people end up with less access to credit. New laws must be seen as experiments, and lawmakers must watch for unintended consequences. Bank of America is trying to get credit agencies to accept new types of document so that recent immigrants can establish a credit history. In the long run, the solution to predatory lending is education, and for mainstream banks to see that many low-income and minority customers can be profitable as prime borrowers.

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Bank accounts in Japan

Open to offers

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From The Economist print edition

Why the Japanese have so many accounts

PEOPLE in Japan have eight bank accounts each. According to the Bank of Japan, there were more than a billion individual bank accounts at the end of March, for a population of 127m. These numbers include neither Japan's mammoth postal savings, run by the government, nor the millions of deposits at agricultural co-operatives. With them, the average goes up to at least 13.

That ordinary and savings accounts held at the same bank are counted separately partly explains the phenomenon. But people would still need to bank at several institutions for the number to be so high. Anecdote suggests that worried depositors have recently been splitting accounts among banks, wary of reforms that might cap government protection of bank deposits at ¥10m ($85,000) per account next April. On the other hand, the average number of bank accounts has barely changed for years.

In fact the high number of accounts per person has more to do with how banks market their services. Perks are often used to attract fresh customers. Jonan Shinkin Bank, a credit union, once offered sacks of rice to new depositors; it now offers ¥100,000-worth of travel coupons in a draw as an enticement. Most of Japan's 700-odd regional banks and credit unions have hordes of salesmen who canvas neighbourhoods persuading locals to open accounts, even small ones.

Although all this creates lots of dormant accounts that cost money to run, banks hope that some, at least, might spawn fresh business. With one popular type of account, called instalment savings, customers promise to put aside a fixed sum that is collected by their banker on monthly visits. The scheme helps customers to save, say, for their dream house, while securing, for the banks, a future piece of mortgage business.

With money spread so widely, it is no surprise that 99% of all deposits, and 70% by value, should be smaller than ¥10m. Delaying deposit-insurance reform, as many politicians in the ruling Liberal Democratic Party hope to do, would benefit few individual depositors, helping corporate, public or rich ones instead.

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BRE Bank

Risky rainmaker

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From The Economist print edition

Poland's self-styled investment bank gets in over its head

POLAND'S banks are battening down the hatches. A stumbling economy has hit profits and increased non-performing loans, prompting a more stringent credit policy. The mere thought of providing finance to troubled companies, let alone taking large stakes in them, puts the wind up most Polish bankers. But BRE Bank, a listed corporate bank that is half-owned by Germany's Commerzbank, and that has a much-trumpeted investment-banking business, is a daring lender.

While most analysts scoff at the notion of an investment bank in Central Europe, given the scarcity of capital and big deals, BRE Bank has found a niche in corporate restructuring. A string of transactions, involving the sale of coveted stakes in Polish companies to long-term investors, has turned the bank into the region's best-known dealmaker. As its peers shunned equities, BRE invested with relish.

Much of the excitement has been provided by Wojciech Kostrzewa, BRE's boss. A veteran Polish banker at 42, Mr Kostrzewa has enjoyed rare freedom for a banker answerable to a foreign owner. Although Commerzbank has a firm grip on the bank's board, BRE has retained its Polish identity—and Mr Kostrzewa has kept his overpowering management style.

After six years heading PBR, a local development bank set up to help restructure state-owned firms, Mr Kostrzewa joined BRE, merged it with PBR and threw it into investment banking and asset management just as the technology boom got under way. In 1999 the sale of a packet of shares in Poland's leading mobile-phone operator, PTC, to Elektrim, a once high-flying conglomerate, was the first of a series of deals that earned BRE spectacular returns that year of 665m zlotys ($168m).

Since then the flow of deals has been stymied by weak equity markets and economic uncertainty. Investors have balked at BRE's high exposure to technology, media and telecoms firms, and at its heavy losses on investments. That included the cancellation in July of a share offering by ITI, Poland's biggest media company, in which BRE has a 15% stake.

Indeed, many question Mr Kostrzewa's deal-making skills. BRE's stock has sunk to a three-year low, largely because of concern about its own investments, according to Mark MacRae of ABN Amro. August's announcement of a worse-than-expected net loss of 93m zlotys in the first half of this year forced the bank to scrap its end-year profit forecast, one-third of which was to have come from asset disposals. The bank has axed one-sixth of its workforce. A push into up-market Internet banking has won plaudits, but it is still early days.

A retreat from investment banking would please investors, but Mr Kostrzewa was counting on another big deal to save the day. Earlier this year, BRE teamed up with local investors to take control of Elektrim just after the company defaulted on its convertible bonds. In a bid to help the conglomerate stave off bankruptcy (a life-saving deal with its creditors may now have bought it time), the bank agreed to purchase *euro*100m ($98m) of its short-term debt and was in exclusive talks to buy its telecoms assets, which it later planned to sell to a foreign investor at a hefty premium. Now legal snags at Elektrim appear to have scuppered the deal.

A strong believer in “convergence”—the notion that Polish asset prices will rise as Poland's entry to the European Union gets closer—Mr Kostrzewa is eyeing the power sector. BRE recently joined a local consortium in the running for a cluster of electricity distributors in northern Poland. With Elektrim holding a stake in the second-largest power generator in Poland, BRE's next gamble might just pay off. Provided his customers keep the faith.

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Global house prices

As safe as what?

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Disillusioned investors have turned from shares to housing. A bubble, anybody?

FOR all the newspaper space devoted to stockmarkets, households around the world have far more of their wealth tied up in property than in shares. American households' shareholdings briefly surpassed the value of their houses in the late 1990s. Now they have about $11 trillion-worth of shares (held directly or in mutual funds), compared with almost $14 trillion in housing. In other countries, housing is even more important. In rich countries as a whole, individuals own $23 trillion in equities, but perhaps $40 trillion in property.

Property is thus the world's biggest asset class, yet timely data on house prices in different countries is hard to find. That is why, earlier this year, *The Economist* launched its global house-price indicator: a set of house-price indices for 13 countries, going back to 1980, both on an average nationwide basis and for big cities. It is time for a mid-year update.

Almost everywhere, house prices continue to outpace inflation. The exceptions are Japan, where house prices are now in their 11th year of decline, and Germany, where prices have been more or less flat since 1992. Britain has risen to the top of the house-price inflation league, with prices up by over 20% in the year to July, double the pace of a year ago. Australia, Canada and Spain have also all seen price gains of at least 10% (see table).

***The Economist*'s house-price indices**
House prices, % change on year ago

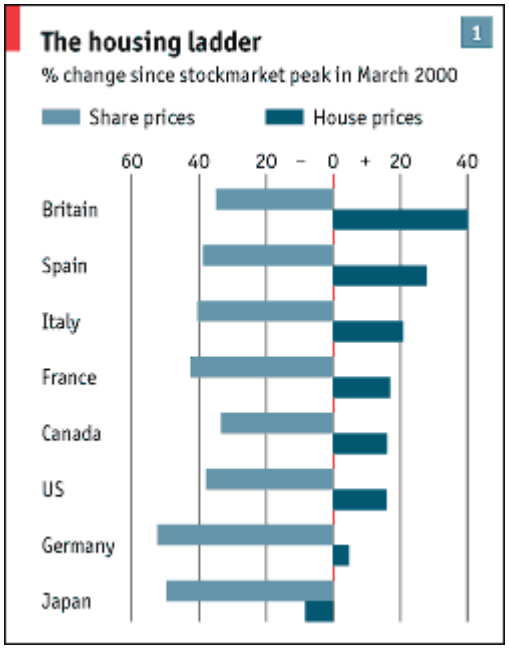
	2002, latest	mid-2001
Britain	20.9	9.4
Australia	17.3	8.2
Spain	15.7	15.5
Canada	9.9	4.9
Italy	9.5	8.9
France	8.0	8.1
United States	7.0	9.0
Netherlands	6.4	10.0
Belgium	5.9	5.7
Ireland	5.2	15.1
Sweden	3.6	8.4
Germany	1.6	1.6
Japan	-4.4	-4.1

Average house-price inflation in America has slowed to around 7%, from 9% in mid-2001—a rise, still, of more than 5% in real terms. American house prices have risen by more in real terms since 1997 than in any previous five-year period since 1945. The National Association of Realtors says that house-price inflation has accelerated strongly in many cities in the second quarter. New York, Washington DC and Los Angeles all saw rises in median house prices of 18-22% over a year earlier.

At the other extreme, house-price inflation has slowed sharply in Ireland, Sweden and the Netherlands. These three countries had among the fastest price increases in real terms over the previous five years, and were starting to look distinctly frothy. Irish house prices rose by an annual average of 20% between 1996 and 2001; in the year to June prices rose by just 5%.

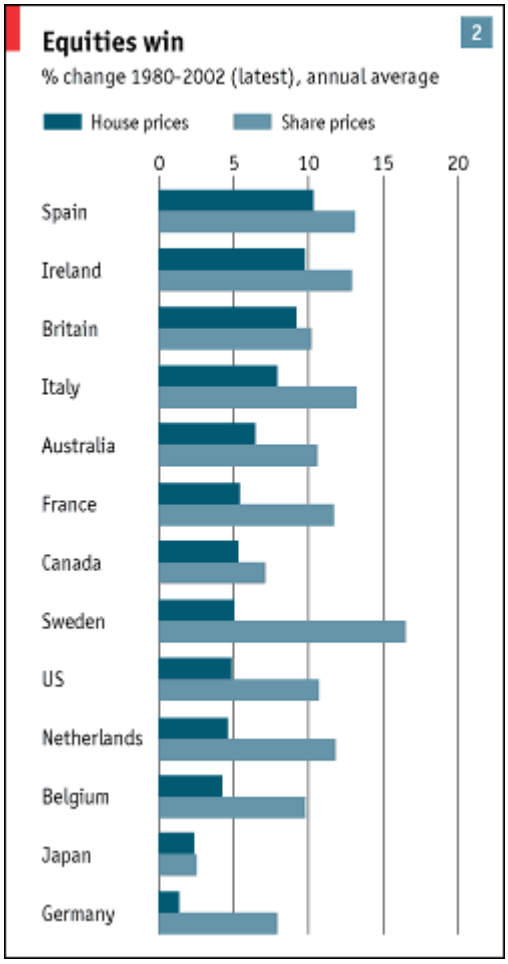
Chart 1 compares the change in house prices with the fall in share prices since

March 2000, when the stockmarket bubble burst. The canny British investor who sold all his shares in early 2000 and bought a house would have enjoyed a 40% gain in his wealth, compared with a loss of 35% had he stayed in shares.



Housing snakes and ladders

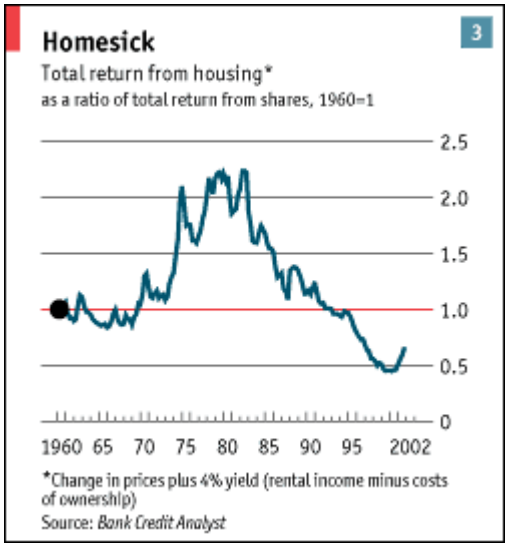
If 1980 is taken as a starting-point, however, equities have risen by more than house prices everywhere, despite the bear market (see chart 2). Martin Barnes at the Bank Credit Analyst, a Canadian research firm, has tracked total returns from housing and shares in America over a longer period, including rental yield and dividends. The total return from investing in property consists not only of a capital gain, but also a rental income or benefit from living there (you would otherwise have to rent somewhere else). Mr Barnes finds that investment in American homes massively outperformed shares between 1960 and 1980, but then did badly from 1982 to 2000 (see chart 3). Now housing is outperforming once again.



Unlike most equity investment, most homes are paid for by borrowing; interest payments may offset the rent. But the use of leverage can also greatly boost the return on your initial stake. Suppose you invest $20,000 in shares, which after five years are worth $40,000, including reinvested dividends. That implies an average annual return of 15%. Alternatively, you could use the $20,000 as a deposit on a $100,000 house, which then rises by an average of 7% a year over five years, to $140,000. Assume for simplicity that mortgage-interest payments and maintenance costs exactly offset the rental income (or the benefit of living in the house). Then comparing the total capital gain of $40,000 with the initial stake of $20,000 gives an annual return of almost 25%.

The more favourable tax treatment of housing adds to its attractions. In many countries, home owners get tax relief on mortgage-interest payments; more important, owner-occupiers are exempt from capital-gains tax. Against this, the costs of buying and selling a house are far bigger than the cost of trading shares. Taking all this into account, the net return from property, over long periods of time, has in many

countries exceeded that from shares.



Traditionally, shares and houses have risen and fallen together. Yet house prices have risen as equities tumbled over the past two years. There are two explanations. With interest rates at 40-year lows, mortgages are unusually cheap. And people increasingly see property not just as a roof over their head, but as the only way left to earn a decent return on investment.

With the value of mutual funds (unit trusts) shrinking, and future pensions looking less secure, many Americans and Britons now see their homes as, in effect, a part of their future pension. They are borrowing more either to buy a bigger house or to buy a second property to let. When they retire they can unlock their wealth in several ways: by selling and moving into a more modest house, by taking out an annuity against the value of the property, or by selling an investment property.

A recent study by the Milken Institute in Los Angeles suggests that, in America, housing has replaced gold as a safe haven in times of uncertainty. This, they say, is why investors have poured money into property as the stockmarket has slumped. The authors find that, from 1945 to 1980, the share of property in households' total assets was positively correlated with GDP growth. Since 1980 they find a negative correlation: housing becomes more attractive at times of slower growth. Until the 1980s, households invested more in housing as equities rose; as shares fell, they put less into housing. By contrast, the recent fall in share prices has seen more money move into housing.

One reason for the change since 1980 is financial deregulation, which has allowed mortgage rates to vary more over an economic cycle, making housing more affordable in downturns. Another is that financial innovation has made property an asset that is easier to tap. A home owner may now convert capital gains into cash by borrowing against the rising value of his house. Home-equity withdrawal (the increase in borrowing in excess of new investment in housing) is running at record levels in both America and Britain.

There are reasons to think that the increased interest in property as an investment is here to stay. Yet there is also a big risk that investors, burnt by the stockmarket, are now overinvesting in housing. The market for housing is almost as prone to irrational exuberance as the stockmarket. And a housing bubble is more dangerous than a stockmarket bubble, because it is associated with more debt. A steep fall in house prices would harm the global economy far more than a slump in share prices.

The best gauge of whether house prices are overvalued is the ratio of house prices to average disposable income—the equivalent, as it were, of the price/earnings (p/e) ratio for shares. In America and Britain, this ratio is now close to its peak of the late 1980s, and the ratio is flashing red in some cities, such as London and Washington, DC. In Ireland and the Netherlands, the ratio is at a record high.

House prices cannot continue rising at today's pace. Yet unless interest rates rise sharply, which seems improbable in the near future, most economists reckon that prices are more likely to flatten off than collapse. Prices appear to be levelling off in London as well as in parts of America.

American house-price inflation is likely to slow, yet Mr Barnes expects that housing will continue to outperform shares. The previous two peaks in the ratio of house prices to income happened, he says, when the p/e ratio for shares was low, making shares cheap relative to housing. Today, shares look overvalued, which boosts the relative attraction of housing.

All this means that house prices might continue to rise for a while yet. But the higher they climb, the more households' debt will swell. The real housing bubble in America and Britain is not the rise in house prices, but the growth in mortgage debt, which is at record levels in relation to incomes. The optimistic

view is that, with interest rates at 40-year lows, households can afford to borrow more. Still, home buyers may be underestimating the true cost. Interest rates are low because inflation is low. But that means that borrowers can no longer rely on inflation to erode their debts, as it did in the past.

At the very least, households hoping that ever-rising house prices will provide generous nest eggs are likely to be disappointed. At worst, the risk is that prices in many countries may take a tumble. Falling house prices, massive debts and low inflation: now that really would be an unpleasant cocktail to contemplate.

We are grateful to the Bank for International Settlements for contributing a large part of the data in this article. Updated statistics were also provided by OFHEO, National Association of Realtors, Japan Real Estate Institute, Nationwide Building Society, Bulwien, Nomisma, INSEE, ESRI, Statistics Netherlands, Statistics Sweden, Westpac, Stadim, Tinsa and Thomson Datastream.

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Sustainable development

A few green shoots

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Alamy

The United Nations' World Summit in Johannesburg is an easy target for cynicism, and rightly so. But it could yet do some good

“THIS is not a sprint, it's a marathon.” So said Colin Powell, America's secretary of state, when describing sustainable development. That neatly sums up the opportunities and frustrations presented by the World Summit on Sustainable Development, the successor to the much-vaunted Earth Summit held in Rio de Janeiro a decade ago.

The gathering, organised by the United Nations, got under way this week as thousands of diplomats, activists, businessmen and journalists descended upon the hapless city of Johannesburg. The summit will culminate on September 4th, when over 100 heads of government (not including Mr Powell's boss, George Bush) are expected in town to bless the proceedings.

Because negotiators are busy haggling over everything from trade to aid to technology transfer, it is anybody's guess what the bigwigs will agree to in the end. Even so, one thing is already clear: this is not Rio. For a start, while the elder George Bush attended the Rio conference, his son is happy to give its successor a miss. Also, this summit lacks any of Rio's set-piece treaties, such as the Framework Convention on Climate Change, or the agreements to stop species loss and desertification, that added sparkle to the earlier summit. That has led some to conclude that the Johannesburg meeting will prove a waste of time. They are not necessarily right. But if governments get it wrong, it will certainly be a wasted opportunity.

The ghost at the feast

“The American way of life is not up for negotiation!” Mr Bush senior was stating the obvious when he uttered these words in Rio a decade ago. However, he set off a furore among greens that was matched only when his son withdrew from the Kyoto treaty on climate change last year. If Mr Bush junior were in Johannesburg next week, as he should have been, he would no doubt say much the same. That may be a reason why the silver-tongued Mr Powell is heading the American delegation.

Scratch the surface, though, and you find reason for optimism: the Bush administration is not, in fact, trying to undermine this summit. It has done things recently that some consider downright supportive. And although Mr Bush is not attending himself, he is sending a well-regarded team of diplomats and experts. Rival negotiators and UN officials say that the American delegates have been, in contrast to their

behaviour over Kyoto, “constructively engaged in the process”.

What is more, the administration has recently put some surprisingly large sums of money into the pot for international assistance. Mr Bush offered $5 billion of foreign aid during a recent conference in Monterrey, Mexico, and his officials have since agreed to share in a $3 billion replenishment of the Global Environment Facility (an agency associated with the World Bank that is a way for rich countries to direct spending towards global environmental problems).

The reason for this softer stance is not that Mr Bush has suddenly turned green. Two other factors explain the *volte-face*. One is the stinging condemnation heaped upon the president for signing the recent farm bill, which hands out obscene amounts of cash to America's already rich farmers. That backlash overwhelmed the pre-summit negotiations held at Bali earlier this year, and turned them into a fiasco. Since then, the administration has put forward an admirable longer-term strategy for the global reduction of farm subsidies, but many people remain mistrustful of it.

The other motive for America's wish to look a little greener is an indirect consequence of the terrorist attacks on September 11th last year. As Jan Pronk, a former Dutch minister who helped to organise the summit, argues, for America's coalition against terrorism to be successful, “it must have a coalition *for* something too.” Being active on environmental and development issues has a nice, positive ring about it, and this may help to keep a few waverers on side.

Nor need the summit's lack of high rhetoric and grand visions be an obstacle to success. On the contrary: by focusing on the unsexy but essential question of how to implement Rio's grand visions, the people chattering away at Johannesburg may end up achieving rather more. In particular, negotiators seem likely to produce concrete plans for action in three areas where environmental concerns overlap with the concerns of the poor: increasing access to agricultural technology, to clean water and sanitation, and to energy, particularly electricity. The aim is to translate noble aims into plans with targets and timetables attached—and maybe even to provide some money to help things along.

Tool today, till tomorrow

Inside the official hall, questions of land and farming were to the fore. Top of the list was criticism of the sort of subsidies that the American farm bill so generously gives away. As Penny Fowler, an adviser with Oxfam, points out, the markets in sugar, coffee, cotton and other commodities that tropical farmers can grow cheaply are distorted by subsidies of $300 billion a year to rich-world growers. For sugar alone, the European Union puts 140% tariffs on many imports from Africa, supports its own sugar-beet farmers to the tune of $1.6 billion a year, and adds insult to injury by dumping surpluses in overseas markets.

There is no realistic belief that the summit will change these policies substantially. Farming interests are too strong for that to happen. (Though a much-trumpeted agreement to “restore the world's depleted fisheries by 2015” might annoy fishermen, another bothersome lobby, if it puts any of them out of business.) Negotiations on phasing out trade-distorting farm subsidies should take place in the Doha round of trade talks; there are almost no trade ministers at the Johannesburg meeting. But Ms Fowler hopes that the summit will give a “political steer” that guides rich-country policy formation.

Practical suggestions that will not cost votes at home do, however, go down well with rich countries. Several initiatives were unveiled in Johannesburg. For example, a group of researchers led by the Consultative Group on International Agricultural Research and the UN's Food and Agriculture Organisation announced plans for a new Global Conservation Trust. According to Michael Jeger, of Imperial College, London, despite the flurry of recent activity in genetic technology, the genetic diversity of the world's crops is dwindling. The trust will attempt to stop this by bolstering the finances of gene banks around the world. These banks are repositories of seeds, intended to maintain such diversity against an uncertain future.

Separately from this, the World Bank announced a plan to form a panel of experts to tackle the whole thorny question of new agricultural techniques such as genetically modified organisms (GMOs). Robert Watson, the bank's senior scientific adviser on the environment (and, until recently, the head of the UN's Intergovernmental Panel on Climate Change), hopes this panel will re-create the success that the climate-change panel had in arriving at a consensus among scientists on these controversial issues.

One manifestation of this controversy came earlier this month, when Zambia's government banned the import of food aid containing GMOs, even though 2½m of the country's people are close to starvation in

the famine that has much of southern Africa in its grip. The stated reason was worries about the safety of such foodstuffs, despite the fact that they are consumed by millions in North America. Indeed, the American government is using the conference to try to persuade African governments that GMOs pose no health risks. But Zambia's administration also fears getting caught up in disputes between America and Europe on the GMO question, and would prefer the country to remain GMO-free for the time being, in case its European trading partners should consider its crops “contaminated”, and stop importing them.

Nor any drop to drink

If the planting of genetically modified crops is at one end of the controversy scale, the need to help the world's poorest secure safe drinking water and adequate sanitation is at the other. Some 1.1 billion people lack access to safe water, and more than twice as many have no sanitation. The result is that more than 2m die each year from such diseases as diarrhoea. Many more suffer from ailments that sap their health and prevent them working. Even those that do not get sick waste many hours a week fetching dirty water from distant locations. No sane person thinks this is a tolerable state of affairs.

The world's governments have already pledged—in the form of the Millennium Development Goals agreed at yet another summit in 2000—to halve by 2015 the proportion of people in the world who have no access to clean water. The summiteers at Johannesburg are talking of adding sanitation to that target, too. According to WaterAid, a British charity, the returns on investment in water and sanitation together are three times higher than those on the supply of water alone.

Money is inevitably said to be a problem. The UN estimates that, at present rates of investment, universal access to safe drinking water cannot reasonably be expected before 2025 in Asia, 2040 in Latin America and 2050 in Africa. Meeting the Millennium Development Goals would require lifting the present investment rate of about $16 billion a year in water-related infrastructure to some $23 billion a year.

According to WaterAid, however, finding money to build infrastructure is not the hardest part. The real difficulty lies in maintaining that infrastructure once it is built. In recent years, a fierce intellectual battle has raged between experts, development banks and activists on the best way to solve this problem. Community-based initiatives, privatisation, cost-recovery pricing and universal subsidies have all been bandied about, with no clear winner. The matter is so sensitive that even Gerard Mestrallet, boss of Suez, a French company with investments in water across the globe, sounds like an anti-market activist. According to him, “water is too essential to life to be a commodity. Public-private partnerships are appropriate, but it is absolutely irresponsible to privatise in developing countries.”

There may be no clear answers at the moment, but South Africa's own experience demonstrates that political will and a willingness to experiment can go a long way. In 1994, the post-apartheid government inherited a system in which 12m out of 38m people did not have access to clean water. Today, that figure is down to 7m out of 42m, and officials hope to have universal access within seven years. The government has achieved this remarkable result with a model that initially met opposition from both development banks and lobby groups. Water is metered and priced, but the small quantity needed for human survival is given away free.

Energy is another area where the Johannesburg summit is likely to produce results—or, at least, aspirations, perhaps in the form of targets for increasing the global share of renewable energy. According to a new report by the International Energy Agency (IEA), some 1.6 billion people have no access to modern energy supplies such as electricity. These people spend a lot of time collecting dirty and unhealthy fuels such as cow dung and wood, and burning them in poorly ventilated houses. As with water, the resultant pollution leads to much suffering. Even more distressing, says Robert Priddle, head of the IEA, is the report's revelation that in 30 years' time existing policies (which involve an investment of $2.1 trillion in poor-country power supplies) will still leave 1.4 billion people without access to electricity.

Often the quickest way to help such people, most of whom live in remote rural areas, is not to build expensive connections to national electricity grids, but to deploy off-grid “micropower” plants that draw their energy from the environment in the form of wind or sunlight. Wind power is already popular in some rich countries, and is often cost-competitive with electricity from a grid, even if that grid is already installed and is a sunk cost. Solar cells are not yet competitive, although their price is falling. But in many countries the economics of both are stymied, as with agriculture, by subsidies.

Sir Mark Moody-Stuart, former boss of Royal Dutch/ Shell, a large Anglo-Dutch oil company, looked into

this closely when he served as head of a task-force on renewable energy organised by the G8 group of industrial countries. He stresses the importance of eliminating export subsidies for technologies such as gas turbines and “clean coal” plants.

At first sight that might seem strange. Both of these methods of generating electricity are greener than the traditional ones because their exhausts are not so polluting (in particular they produce less carbon dioxide, and so contribute less to global warming). But they are likely to be used in medium-to-large power stations attached to grids. They would therefore serve the urban population, which is already “gridded up”, and provide little extra incentive to provide power to the countryside. Sir Mark is not necessarily suggesting the total elimination of subsidies, just their redirection. He proposes aiming them at micropower generators that use renewable energy, for example by reducing their price when they are sold to the villagers who need them.

A million points of light

The shift from huge electricity grids to village-owned micropower generators is a reflection of a wider shift that is taking place over how the grand promises of conferences such as the Johannesburg summit are turned into pedestrian reality. If there is one thing that the decade since Rio has made clear, it is that a top-down approach rarely works. Governments cannot deliver on such pledges by themselves. They have to involve their own people, whether as consumers or businessmen—or, frequently, just get out of people's way.

A fashionable, though controversial, move in this direction, which this summit could make less controversial, is so-called “Type 2” partnerships, organised by (or, at least sanctioned by) the UN, and involving governments, businesses, non-governmental organisations (NGOs) and local community groups. (“Type 1” partnerships are government-to-government.)

Such collaborations have happened informally for a long time, of course. But the bureaucrats would like to codify them. That may have advantages. It would, for example, be easier for groups elsewhere in the world to learn from individual successes. But, while business groups such as the World Business Council for Sustainable Development have warmed to them, many NGOs remain sceptical. The most extreme, such as Christian Aid and Friends of the Earth, scream that business has hijacked the summit. Many anti-capitalist groups are planning to take to the streets of Johannesburg on August 31st.

Not all NGOs are so rabidly anti-business. Dozens have already signed up for Type 2 partnerships with rapacious capitalists to help deliver basic services to the world's poorest people. As Sunita Narain of the Centre for Science and Environment, an Indian NGO, puts it: “I have no problem with the private sector. God, how could anyone from India possibly think that government can solve all our problems?” Her quarrel with the Type 2 deals is more profound. Experience has shown, she argues, that solutions to the environmental problems that plague poor people lie neither with government nor with business, but rather with the poor themselves—if they are given the power to change their circumstances.

It is a nice ideal. But there are limits to what even grass-roots activism can do on its own. If anybody doubts that, they need only visit Soweto. This predominantly poor suburb of Johannesburg sprang into the world's headlines during the protests and bloody repression of the apartheid era. Today, it is fomenting a new protest movement called Operation Khanyisa (“light up”, in Zulu).

So which oppressive dictators are the locals fighting these days? Robert Saunders, a local businessman, explains: “We object to these unjust rates and to privatisation. We want no cut-offs for non-payment. We started in Soweto but now have branches all over South Africa!” It turns out their marches and angry slogans are directed at the evil policy of charging users the cost of providing basic services like electricity. The road to sustainability still has a few bumps in it.

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The history and future of pensions

Matters of life and death

Aug 29th 2002
From The Economist print edition

We all want good pensions. But how are we going to pay for them?

LIKE short skirts, fashions in pension reform come and go. In the early 1990s, when the world realised that increasing longevity and low birth rates meant there would be a lot more old folk around in future, the received wisdom was that generous state pensions run on the pay-as-you-go principle—with today's workers shelling out for today's pensioners—would become untenable a few decades hence. By 2050, the forecasters said, the proportion of people over 60 to those aged 15-59 would climb from about 30% now to over 60%. The answer—particularly in the rich countries, but even in the developed world, which was beginning to run up against the same problems—was much greater emphasis on fully funded private provision, which would be fairer to future generations. State provision should be reduced to a bare minimum.

In 1994 the World Bank published a report, “Averting the Old Age Crisis”, which for the rest of the decade became the set text for pension reform. It argued that public pay-as-you-go systems were financially unsustainable and should be cranked down. Instead, there should be mandatory, fully funded and privately managed occupational or personal pensions, supplemented by voluntary personal savings. The awful alternative would be hugely increased contributions to state pensions, greatly reduced benefit levels and a higher retirement age.

Banking on Death or Investing in Life: The History and Future of Pensions
By Robin Blackburn

Verso; 550 pages; $30 and £20

Buy it at
Amazon.com
Amazon.co.uk

Alarmed by such a prospect, governments started tinkering with state pension systems to make them less generous. But voters proved curiously resistant to such rational reform. In continental Europe, where state pensions generally made up the great bulk of people's income in retirement, even comparatively minor cutbacks proved highly contentious. And in hard-nosed America, Social Security—the state retirement scheme—once again vindicated its reputation as the “third rail” of American politics: touch it and you're dead.

Meanwhile, though, private provision was making considerable strides. In America, it is estimated that nearly two-thirds of all full-time workers have invested in 401(k) schemes, a way of building up a portable retirement pot that offers considerable tax incentives. Occupational pension funds everywhere were flexing their muscles as big stockmarket investors. That was fine as long as stockmarkets were booming, not so fine when they went into free fall. Many company pension funds have now discovered

that their liabilities exceed their assets. Investing a large part of a corporate pension fund in the company's own shares turned out to be a particularly bad idea: when Enron went bust, many of its employees lost their entire pension entitlement. And because of lower interest rates, the recently retired who are buying an annuity with their accumulated pension money find the income they are getting from it is far lower than they had hoped. Suddenly private pensions look a lot less secure than those much-maligned state pensions.

Robin Blackburn does an excellent job of tracing these recent developments and rehearsing the pros and cons of various systems. Usefully, he includes a short history of pension provision, short because in the bad old days there was not much need for pensions: people generally worked until they dropped dead at an early age. “Banking on Death”, a reference to this “mortality bonus” of early pension systems, is actually an odd title to pick for this book because these days most people live long enough to draw their pensions for many years.

The man generally credited with introducing the first universal pension scheme is Otto von Bismarck. Mr Blackburn quotes a fascinating passage from the German chancellor's speech to the Reichstag in 1889 in which he explained the rationale behind it: “I will consider it a great advantage when we have 700,000 small pensioners drawing their annuities from the state, especially if they belong to those classes who otherwise do not have much to lose by an upheaval and erroneously believe they can actually gain much by it.”

Nowadays pensions are not explicitly designed to forestall revolution, but democratic governments risk being punished at the polls if they fail to ensure that their citizens enjoy a comfortable retirement. Given the expense of doing this through a state system, and the recent disappointments in the private sector, how is this to be achieved? The author has a radical solution of his own to put forward, but it is here that he will lose a lot of his readers.

The trouble is that Mr Blackburn, who is a professor of sociology at the University of Essex and the New School University in New York, and for many years edited the *New Left Review*, is not very keen on capitalism. So the pre-funded scheme he wants to set up to provide second pensions for all alongside the state system, while designed to produce the required revenue through normal investment channels, also has some all-singing, all-dancing features meant to turn it into an instrument for improving the world.

Much of the money would come from requiring companies to issue new shares, say up to a value of 10-20% of their annual profits. These would go into pooled funds to which employees would also contribute, according to their means. But the tax concessions to be gained would be confined to those funds that behaved in ethically and socially responsible ways, took account of the wishes of informed citizens and were subject to civic monitoring. So the funds would not always be aiming for the best rate of return, with its attending “free-market mayhem”, but for “the progressive socialisation of the accumulation process”. More likely, any company faced with the prospect of being stripped of 20% of its profits would go and accumulate elsewhere. Ah well, try again.

Banking on Death or Investing in Life: The History and Future of Pensions.
By Robin Blackburn.
Verso; 550 pages; $30 and £20

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About sponsorship

Britain and India

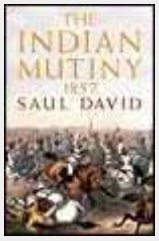
They wanted their own share

Aug 29th 2002
From The Economist print edition

THE British Raj boasted one tourist site that drew even more visitors than the Taj Mahal. The memorial well at Cawnpore, nine feet wide by 50 deep, greatly appealed to the Victorians' sense of horror and fascination. For down it, on the morning of July 16th 1857, had been thrown the corpses of around 180 British women and children, massacred in cold blood by Indian mutineers the previous night.

It was only the beginning of a brutal spiral of atrocities and reprisals. By the time the mutiny had been crushed, the British had killed many more Indians—though rarely women and children—and in equally degrading circumstances. The nephew of the Nawab of Farrukhabad, for example, was forced to eat pig meat before being flogged and then hanged; a single tree in the Nawab's province was used to hang no fewer than 130 men from its branches simultaneously.

The Indian Mutiny: 1857
By Saul David



Viking Penguin; 528 pages; £20

Buy it at
Amazon.co.uk

Historians have long had a problem with the mutiny, over its motives, antecedents and intentions. Was it, as Indian historians tend to aver, the first war of Indian independence in which a people rose simultaneously to throw off the imperialist yoke, or was it—as British historians have argued—merely a limited uprising of misguided sepoys who had been misled into thinking the British were threatening their religions and caste system?

Now Saul David, a fine revisionist historian with a number of thought-provoking books to his name already, argues with conviction that neither explanation is satisfactory and instead presents a fascinating and convincing alternative.

Mr David demonstrates with recourse to an impressive array of evidence amassed in British and Indian archives that the mutiny was led by discontented sepoys who wanted “to replace their British employers with a native government that would, at the very least, provide greater career opportunities and increased pay”. Financial considerations, rather than political, racial or religious ones, lay at the heart of the mutiny.

For all that it has a serious academic point to make, and this is undoubtedly an important work of scholarship, this book reads like a novel. Nobody can read the opening chapter, in which the telegraph's warnings are flashed across the Punjab to save the British in various cantonments from massacre, and then not want to read on. The issue of animal fat being used on cartridges was, it turns out, manipulated by the mutineers to provide a pretext for their uprising, even though it was generally known not to be the truth.

It was the East India Company's monopoly on hiring soldiers, which had forced down wages since the commercial giant had established its dominance on the sub-continent, that the mutineers hated. Their support for various local princes such as the kings of Oudh and Delhi was intended to promote competition in troops' wages. The mutineers were therefore neither early nation-builders nor misguided dupes, but the world's first anti-trust campaigners. Their key demand was for double-pay, which the local rulers soon found they could not satisfy for long.

The stories of heroism and self-sacrifice on both sides of the conflict are thrilling. The siege and relief of Lucknow are rightly part of the Victorian imperial epic, and the author reminds us why. The viciousness with which the mutineers were punished was a stain on the British empire, but it did ensure that the next 90 years saw peace and order.

Mr David believes that the British came much closer to losing India altogether than is usually appreciated. Because they had superior information technology they were able—just in time—to disarm several crucial Indian regiments moments before they mutinied. It is fair to agree with Donald McLeod, the financial commissioner for the Punjab in 1857, who said: “The electric telegraph saved us.” But it very nearly did not.

The Indian Mutiny : 1857.
By Saul David.
Viking Penguin; 528 pages; £20

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Novels of finance

The amorous effects of cash

Aug 29th 2002
From The Economist print edition

YOU might think that the boom-bust cycle at the end of the 1990s and its attendant scandals would have thrown up a wealth of novels about innocence, greed and betrayal in the City or Wall Street. In fact, they have been comparatively rare, and these two stories of finance deserve a closer look for that reason alone.

Gary Krist's “Extravagance” straddles parallel worlds: London in the 1690s and New York in the late 1990s. Both are times of speculative boom, each derived from a combustible fusion of new technology with stockmarket finance. In London's Exchange Alley, “you can purchase shares of a project to make whalebone whips, say or a Sucking-Worm Engine, or special 'orseshoes made from the finest India rubber, guaranteed to improve any nag's speed”. On modern Wall Street, the technology is fancier, but the motives of the financial operators are the same.

William Merrick, the hero of “Extravagance”, flits between these 17th and 21st-century scenes. An ingénu in the big city from Devonshire/Indiana, he is driven by a fascination with stock-jobbing and quickly falls in with shifty Exchange Alley/Wall Street types. During the flotation of a new project, greed leads Merrick to betray his uncle and protector. He emerges richer in pocket, poorer in love and somewhat wiser about the world: an ambiguous end to an entertaining work.

Cath, the heroine of Kate Jennings's “Moral Hazard”, also inhabits two mad worlds. Her husband, Bailey, is in a nursing home, stricken with Alzheimer's disease. To pay for his care, Cath, a left-wing freelance writer, takes a job as a speechwriter for Niedecker, an investment bank. At odds with her new surroundings, she adopts a detached, anthropological approach to the corporate life. She no longer see skyscrapers as architectural objects, but as “infestations of middle-managers, tortuous chains of command, stupor-inducing meetings, ever-widening gyres of e-mail. I saw people scratching up dust like chickens and calling it work.”

When the stability of the bank is threatened by a large hedge-fund failure, the bankers are protected from the consequences of their foolish actions. As Bailey lies dying, the hospital keeps him alive, against Cath's wishes. “Moral Hazard” is a sad, moving and rather bitter novel. In its pages investment bankers are depicted as humourless, amoral bullies and hypocrites, who hide behind slogans boasting of integrity and respect.

As moral satires, neither of these books quite measures up to “Bonfire of the Vanities”, Tom Wolfe's 1987 tale of a bond trader's fall, let alone to the 19th and early 20th-century classics about the corrosions of money. But in their different ways each of them captures the exhausted ethos of a late bull market: faced by the reality of the financial world, Mr Krist's youthful hero loses his joyous, speculative verve and Ms Jennings's heroine touches ground in a sort of bleak disillusion.

Extravagance.
By Gary Krist.
Broadway Books; 288 pages; $24

Moral Hazard.

Extravagance
By Gary Krist

Broadway Books; 288 pages; $24

Buy it at
Amazon.com
Amazon.co.uk

Moral Hazard
By Kate Jennings

Fourth Estate; 192 pages; $21.95 and £10

Buy it at
Amazon.com
Amazon.co.uk

By Kate Jennings.
Fourth Estate; 192 pages; $21.95
Fourth Estate; 192 pages; £10

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Soccer

Keeping score

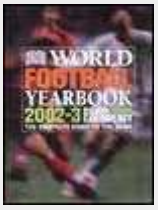
Aug 29th 2002
From The Economist print edition

“IS THERE any cultural practice more widespread than football?”, asks David Goldblatt, and well he might. Cult or culture, the game is the world's favourite. There are national soccer books galore. Mr Goldblatt's almanac, a mine of football facts and football lore, is truly global.

The book is attractively designed in a break from Dorling-Kindersley's now somewhat dated white background and drop-shadow look. Full colour, cleverly mapped and charted, up-to-date historical data provide a wide survey of world football, classified by country, city and club. Many a pub or office argument can now be settled with ease. No publisher has brought football and its statistics to life in such an imaginative and engaging way.

World Football Yearbook 2002-3: The Complete Guide to the Game.
By David Goldblatt.
Dorling Kindersley; 496 pages; £19.99

World Football Yearbook 2002-3: The Complete Guide to the Game
By David Goldblatt



Dorling Kindersley; 496 pages; £19.99

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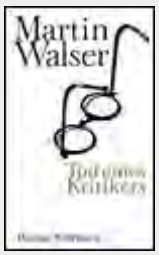
German fiction

Not a ripping read

Aug 29th 2002
From The Economist print edition

IT CAN often seem that the only sure way to get a new novel to the attention of the German reading public is a publishing row or literary scandal. This presumably was not what Frank Schirrmacher, the literary editor of *Frankfurter Allgemeine Zeitung*, intended, when in May he explained in his pages—not that anyone had asked—why the paper wouldn't be serialising Martin Walser's latest novel, “Tod eines Kritikers” (Death of a Critic), even though it had regularly so honoured this venerable writer in the past. As the novel's plot involved the apparent murder of a Jewish critic by a German author, it was in Mr Schirrmacher's view, anti-Semitic.

Tod eines Kritikers
By Martin Walser



Suhrkamp; 218 pages; euro19.90

Buy it at
Amazon.de

The charge made tidal waves in Germany. *Die Zeit* commissioned five separate reviews; the *FAZ* gave their man the freedom of two broadsheet pages. The consensus seemed to be that while the novel was not guilty of, as it were, classic anti-Semitism—the character of the critic was not attacked because he was a Jew—Mr Walser had exploited his Jewishness as a way to make him unappealing to his readership.

Some persuasive readings—for example Dirk von Petersdorff in *Die Welt*—placed the characterisation firmly in a stereotypical line of “unproductive Jews”; the man has an effigy for a mother, a banker for a father, no known birthplace, he needs to be pointed to something real (German culture) by a veritable German so that he can parasitically and self-aggrandisingly live off it. He cannot even speak German properly, but has an exotic—Yiddish—accent when he says “German” or “writer” or “literature”. Some reviewers ironically congratulated Mr Walser on the first anti-Semitic portrayal of a Jew in German literature since 1945.

What pretty much all the reviewers agreed on was that it was a woeful book. Indeed, the farrago about the murder of the critic, who turns out not to have been murdered, followed by some bafflingly dispersive meanderings about the novelist who didn't do the deed, qualify “Death of a Critic” as a work of deep incompetence. The only pages that—unpleasantly—have any life in them are those given over to an attack on the critic, André Ehrl-König, in whom no German reader will have had any trouble in identifying the noted German critic, Marcel Reich-Ranicki.

Mr Reich-Ranicki, whose autobiography was recently translated into English, is a figure of vast power in German letters, and genuinely a household name. After many years on the *FAZ*—the same *FAZ* to whom Mr Walser provocatively submitted his book—Mr Reich-Ranicki found his apotheosis on television, where he took his passionate, vehement, rather gladiatorial style to a show called “Das literarische Quartett”, which played until recently to large audiences over many years. Posters showed him tearing apart Günter Grass's novel, “Ein weites Feld” (“Too Far Afield”) with his bare hands (the German for a bad review is “ein Veriss”: a tearing apart or a rip-up). Mr Walser's own large books had suffered many times at his hands.

“Death of a Critic” is an atrocious book, so bad that not even Mr Reich-Ranicki could have wished it worse. It has the predictable effect, moreover, of making you sympathise with the critic. Mr Walser's claims in interviews that he could only write a book “with love” are quite simply nauseating. Meanwhile Mr Reich-Ranicki may even be regretting his frequently made observation that a writer need not take the trouble to write a good book if his publishers can make so much money with a bad one. Sales of “Tod eines Kritikers” are said to be upwards of 150,000.

Tod eines Kritikers.

By Martin Walser.
Suhrkamp; 218 pages; euro19.90

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Edinburgh fringe

Laughing yourself sick

Aug 29th 2002 | EDINBURGH
From The Economist print edition

Two comedians who are better than their subject matter

Trevor Stuart's gloves-on humour

WATCHING the customary parade of penis contortionists, lesbian dwarf cabaret singers and one-legged, satirical performance poets at this year's Edinburgh Fringe Festival may leave you feeling that humankind ran out years ago of things to say about human genitals, terminal illness and the Taliban. On this over-crowded terrain, Trevor Stuart and André Vincent are exceptions. One deals in bodily functions (sexual and scatological), the other in misfunctions (cancer). As with all good comedy, it's less what fluids they talk about—or spill—than how they do it.

To start his show “Taboo”, Mr Stuart enters conventionally enough, dressed in a straitjacket and dragging a ghetto blaster on a skateboard tied by string to his most vulnerable member. He then assaults the crowd from behind the disguise of a deranged patient posturing as a psychiatrist. This unashamedly cheap theatrical device gives the good doctor a licence to exploit every uncomfortable subject in the most uncompromising, retch-making ways.

Mr Stuart's success as a manipulator of audience sensibilities owes less to his cesspool of profanity than to his performance skills. His bizarre stunts and phantasmagoric wit, which simultaneously evoke a sideshow at a Victorian fairground and a theatre-of-cruelty happening, are all delivered with the impeccable timing and physical accuracy that come from training at the Etienne Decroux mime school.

Sado-masochistic and illness-based stage comedy has a distinct tradition. There was the late Bob Flanagan, a sufferer from cystic fibrosis who turned self-punishment into a performance art. There is the Jim Rose Circus, a modern-day freak show that shocks and revolts, and has acquired worldwide notoriety. Using words rather than sick bags, Peter Cook and Dudley Moore, two British comedians, created entire routines about cancer. And when Tom Green, a popular MTV comedian, succumbed to testicular cancer in 2000, he joked about it on screen.

Dying unpleasantly is the material of Mr Vincent's autobiographical comedy. In the cancer ward of a grubby North London hospital, he is wondering what will happen to him next. He was diagnosed with diabetes following a 46-hour drinking binge at the 2000 Edinburgh Fringe, and during last year's festival he was rushed into hospital with cancer of the kidney.

In “André Vincent Is Unwell”, the recently resurrected comedian cleverly dissects his own experience on the operating table, recalling, with fascinating detail, every aspect of the process of being ill, from his diagnosis to what the comedian would have us believe is the biggest joke in the NHS—aftercare.

Stopping en route to tell us about his South Park-patterned pyjamas, his experiences at a sperm bank and with broccoli—his grandmother's answer for all ailments—Mr Vincent smatters his narrative with statistics that only a career-invalid would know. These range from the chances he has of dying of cancer (0.03%) to the fact that there are more than 350,000 cancer diaries on the Internet.

What separates this stand-up comedian from others who look for humour in a tumour, is an ability to sustain a single narrative for over an hour with malignant wit. Unlike others who meander, Mr Vincent sticks to his difficult story like a growth to the kidneys.

This isn't for everyone. Squeamish playgoers, or those who simply do not want to pay to be disgusted, may long for Messrs Stuart and Vincent to crawl back to the nursery cots or hospital wards whence their comedy came. To judge from the reactions of the audience, though, others hugely enjoy these two gifted comedians, who deftly exploit the mirth and meaning of sick minds and bodies.

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About sponsorship

John Cage

Listen hard

Aug 29th 2002
From The Economist print edition

Silence is golden

ALTHOUGH 50 years old, John Cage's piece for silent piano still reverberates. Lasting four minutes and 33 seconds, it called for no intentional sounds. At the 1953 premiere of “4'33''”, given by David Tudor in Woodstock, New York, at the Maverick Concert Hall—a rough, wooden structure open at one end to the woods—there were the sounds of a breeze, then the first drops of a light rain on the roof and finally, the composer said many years later, “the voices of disturbed listeners, some of whom may be said to still be walking out”.

For a special concert at the Maverick on August 24th (five days before the actual anniversary), Margaret Leng Tan, a remarkable pianist who has just released a CD with little-known early Cage works of startlingly beauty and jazziness, chose a toy piano not to play. She faced it artfully, with eyes closed. It was a cold, damp night but without the swish of breeze or patter of rain. Respectful, memorial silence ended at last when someone accidentally dropped a plastic water bottle and generated a gratifying bit of audience titter.

The point perhaps of “4'33''” is that we can never experience true silence. There is always something to listen to; even in a sound-proof room we hear the activities of our bodies. When “4'33''” isn't, itself, making an audience mad, it offers a way to welcome the ambient sounds that often otherwise hinder the listening to music at a concert.

It is a tribute to Cage, who died ten years ago, that his avant-garde classic remains musically—and commercially—controversial. In June, a British pop music producer and composer, Mike Batt, made news by getting into trouble with Cage's New York publisher, C.F. Peters. He had included a blank, one-minute cut of silence, attributed to Batt-Cage, on the debut record of The Planets, a cross-over band, without intending to pay royalties.

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About sponsorship

Robert Borkenstein

Aug 29th 2002
From The Economist print edition

Robert Borkenstein, inventor of the breathalyser, died on August 10th, aged 89

Indiana University

WHEN Robert Borkenstein became a policeman in the 1930s, a motorist would need to have been clearly drunk before being thought a menace. Unless his speech was unmistakably slurred and he was a bit wobbly on his feet he could probably avoid prosecution. Even if he were taken to court, a lawyer might argue successfully that his client was tired through overwork. Worse, many Americans, happy to have got rid of prohibition, saw a drunk as simply a sociable fellow, a bit of a comic, even at the wheel of a car.

This was not the view of Mr Borkenstein. As a photographer for the Indiana police he had recorded a number of fatal accidents involving drivers that he was sure had drunk too much. When he became head of Indiana's police laboratory he puzzled over the problem of how to measure, simply and reliably, how much alcohol a driver had consumed.

A friend of his at Indiana University, Rolla Harger, was studying the effects of alcohol on humans. He worked out that the amount of alcohol in a person's blood could be measured by taking a sample of his breath. One millilitre of alcohol in the blood equalled 2,100 millilitres of breath. Helped by Mr Borkenstein, he devised an instrument they called the drunkometer. This was the forerunner of the breathalyser that Mr Borkenstein patented and marketed in 1954 and which for many years has been routinely used by police in the United States and other countries.

There is often an air of suspicion over claims to the authorship of scientific discoveries, especially those that have resulted in fame and fortune. Was Harger the real inventor of the breath test? He was a pioneer in the study of inebriation, and the drunkometer was an attempt to put his work to practical use. But it involved blowing into a balloon, which was then sent to a laboratory where the air was passed through a solution that changed colour if alcohol was present. The amount of alcohol could then be calculated. The breathalyser was fairly easy to use and could give a quick reading. Rolla Harger (who died in 1983, aged 93) admired the breathalyser and was happy to credit Mr Borkenstein with its invention. They remained good friends with the common aim of stopping drunken driving.

No lies

Robert Borkenstein was largely self-taught. As a youngster he dabbled in science and devised a system of colour photography. Science, he believed, could defeat the law-breaker. Not only would science deter drivers from drinking, it would make evidence presented to the courts more reliable. He worked on improving the efficiency of the polygraph—the lie detector—and conducted some 15,000 tests with the instrument. But despite a successful career in the police, Mr Borkenstein felt he had missed out by not having had a university education. He gained the comfort of a degree in his late 30s, in subjects that came easy to him, police administration and French: his wife was French, and the couple often took their holidays in France. Eventually, he said goodbye to the police and took his experience to Indiana University where he became head of its department of forensic studies for 30 years.

As the inventor of the breathalyser, a name that went into the dictionary, Mr Borkenstein was in much demand as a speaker in a country in love with the car but appalled by the carnage on the road. Thousands of breathalysers were made by various manufacturers under licence, increasingly compact and increasingly efficient. One, a coin-machine designed by Mr Borkenstein for use in bars, would speak a variety of messages depending on the state of the user: “Be a safe driver”, “Be a good walker”, or

“You're a passenger”.

Competitors to the breathalyser, and claimed to be more efficient at measuring alcohol, are now on the market. Still, the effect of alcohol on the body remains not wholly understood. A study carried out by Mr Borkenstein in 1981 suggested that in certain cases a driver who had drunk less than two ounces of alcohol might be safer than a driver who was an abstainer, because he was more relaxed. The study was paid for by a liquor company and treated with suspicion. Mr Borkenstein was upset that his honest finding was applauded by motorists who said they drove better after a few drinks. He liked a drink, wine especially, but whatever might be its relaxing qualities in some situations, he advocated abstinence at the wheel.

It was a disappointment to him that although the threat of being breathalysed must have deterred many drivers from drinking, the number of road deaths attributed to alcohol remains high: 15,700 in the United States in 1999, more than a third of all road deaths. In Europe the fatalities are proportionately lower. Even so, about 5,000 people die on the roads in Spain each year as a result of drink. Even Sweden, where the legal limit is tiny and drunken drivers routinely go to jail, there are 500 road deaths a year attributed to drink. The Swedes are experimenting with a device fitted to a car dashboard that monitors the driver's breath. If he has been drinking, the car won't start. It may be the next step forward from Mr Borkenstein's breathalyser of 50 years ago.

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Overview

Aug 29th 2002
From The Economist print edition

American consumers may be losing heart. The Conference Board's consumer-confidence index fell by more than expected in August to 93.5, its lowest since November 2001. Chain-store sales also fell by 1.6% over the first three weeks of August, compared with the first three weeks of July. But Americans ordered more durable goods last month than expected. Seasonally adjusted, orders rose by 8.7% in July, after falling by 4.5% in June. Orders for capital goods leapt by 10.5%, the largest monthly jump since 1992: a sign that businesses might be starting to invest again, even as consumers flag.

Although Americans have been pulling record amounts of money out of equity mutual funds, they are increasingly enthusiastic home buyers. The Commerce Department reported that new-home sales in July jumped by 6.7%, a record rise. Sales of existing homes rose by 4.5%.

The **euro-area** economy grew for the eighth consecutive month in July, but the pace of growth continues to slacken, according to the Centre for Economic Policy Research. That body's euroCOIN indicator of euro-area business activity fell to 0.504 in July from 0.513 in June. Any reading above zero indicates expansion. The euro area's current account recorded a $24.8 billion surplus in the year to June; it was in deficit by $43.3 billion in the same period last year.

Germany's Ifo business-climate index fell for the third month in a row, to 88.8 in August, down from 89.9 in July. **Spain's** GDP grew by 2.0% in the year to the second quarter; although household consumption slowed in the second quarter, fixed investment picked up. **Belgium's** economy grew by 0.3% in the year to the second quarter.

In **Sweden**, industrial production fell by 1.3% in the year to June. Unemployment edged up to 4.3% in July, from 4.0% in June.

America's stockmarkets fell sharply. The Dow Jones Industrial Average was down by 2.9% over the week. The Nasdaq fell by even more. Bourses in Europe followed America's lead. The FTSE 100 fell by 2.1%, after briefly posting a seven-week high.

Britain's GDP grew at an annual rate of 2.4% in the second quarter, slower than previously thought. Disappointing manufacturing-output figures for June were responsible for most of the downward revision.

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Output, demand and jobs

Aug 29th 2002
From The Economist print edition

% change on year ago

	GDP 1 qtr*	GDP 1 year		The Economist poll GDP forecasts 2002	2003	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 3.6	+ 4.2	Q1	+ 4.0	+ 3.8	+ 4.3	Q1	+ 6.3	Q2	6.2	Jul	6.9
Austria	+ 0.3	– 0.6	Q1	+ 0.9	+ 2.6	+ 2.5	Jun	– 0.2	May	4.1	Jun	3.5
Belgium	+ 0.8	+ 0.3	Q2	+ 1.3	+ 2.9	– 4.1	Jun	– 3.3	May	11.8	Jul†	11.1
Britain	+ 2.4	+ 1.2	Q2	+ 1.7	+ 2.9	– 6.6	Jun	+ 4.5	Jul	5.1	Jun‡	5.0
Canada	+ 6.0	+ 2.1	Q1	+ 3.3	+ 3.5	+ 0.5	May	+ 4.3	May	7.6	Jul	7.0
Denmark	+ 1.4	+ 1.1	Q1	+ 1.6	+ 2.4	+ 4.2	Jun	+ 4.1	Jun	5.1	Jul	5.1
France	+ 1.8	+ 0.4	Q1	+ 1.4	+ 2.7	nil	Jun	– 2.5	Jun	9.0	Jun††	8.6
Germany	+ 1.1	+ 0.1	Q2	+ 0.7	+ 2.3	– 2.3	Jun	– 5.2	Jun	9.9	Jul§	9.3
Italy	+ 0.9	+ 0.2	Q2	+ 1.0	+ 2.5	– 5.4	Jun	– 0.8	Jun	9.0	Apr	9.5
Japan	+ 5.7	– 1.6	Q1	– 0.3	+ 1.1	– 2.9	Jun	– 3.5	Jun	5.4	Jun	4.9
Netherlands	+ 0.5	+ 0.1	Q2	+ 1.0	+ 2.5	– 3.0	Jun	– 2.1	May	2.4	Jul**	2.0
Spain	+ 1.8	+ 2.0	Q2	+ 2.1	+ 3.0	– 4.4	Jun	na		11.5	Jun	10.6
Sweden	+ 2.4	+ 2.1	Q2	+ 1.7	+ 2.9	– 1.3	Jun	+ 4.5	Jun	4.3	Jul†	4.2
Switzerland	+ 0.7	+ 0.2	Q1	+ 1.0	+ 2.3	– 8.8	Q1	– 3.0	Jun	2.6	Jul†	1.7
United States	+ 1.1	+ 2.1	Q2	+ 2.7	+ 3.4	+ 0.2	Jul	+ 5.4	Jun	5.9	Jul	4.6
Euro area	+ 1.3	+ 0.3	Q1	+ 1.1	+ 2.6	– 1.2	Jun	+ 0.7	May	8.4	Jun	8.0
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	– 0.6	– 2.0	Q1	na	na	+ 5.5	Jun	+ 2.7	May	7.8	Jul†	7.6
Greece	na	+ 4.3	Q1	na	na	+ 2.4	Jun	+ 9.9	Apr	na		na
Iceland	na	+ 3.1	2001	na	na	+ 3.3	2001	na		2.3	Jul†	1.1
Ireland	na	+ 2.9	Q1	na	na	+16.0	Jun	– 0.5	Jun	4.3	Jul	3.7
Luxembourg	na	+ 3.5	2001	na	na	+ 4.3	May	+ 4.9	Mar‡‡	2.7	May	2.4
New Zealand	+ 4.3	+ 4.0	Q1	na	na	+ 4.3	Q1	+ 8.3	Q2	5.1	Q2	5.3
Norway	– 1.1	+ 1.0	Q1	na	na	+ 5.3	Jun	+ 2.9	Jun	3.8	Q2	3.6
Portugal	+ 1.4	+ 1.4	Q1	na	na	– 0.7	Jun	– 1.5	Jun	4.5	Q2†	3.9

*% change at an annual rate. †Not seasonally adjusted. ‡April-June; claimant count rate 3.1% in July. §EU harmonised rate 8.3%. **May-Jul. ††Revised series. ‡‡New series.

Text refers only to the first 16 countries listed

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Prices and wages

Aug 29th 2002
From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2002	2003	latest		year ago	latest		year ago
Australia	+ 2.8	Q2	+ 6.0	+ 2.8	+ 2.6	– 1.1	Q2	+ 5.6	+ 3.7	Q2	+ 4.4
Austria	+ 1.6	Jul	+ 2.8	+ 1.7	+ 1.7	– 1.0	Jul	+ 1.9	+ 2.4	Jul	+ 2.8
Belgium	+ 1.3	Jul	+ 2.7	+ 1.7	+ 1.6	– 0.2	Jul	– 0.4	+ 2.6	Q2	+ 2.6
Britain	+ 1.5	Jul	+ 1.6	+ 1.9	+ 2.4	+ 0.3	Jul	– 0.1	+ 3.9	Jun	+ 4.7
Canada	+ 2.1	Jul	+ 2.6	+ 1.7	+ 2.2	– 1.2	Jun	+ 1.5	+ 2.8	May	+ 0.7
Denmark	+ 2.2	Jul	+ 2.4	+ 2.3	+ 2.0	– 0.9	Jul	+ 2.7	+ 4.0	Q1	+ 3.8
France	+ 1.6	Jul	+ 2.1	+ 1.8	+ 1.4	– 1.5	Jun	+ 2.3	+ 3.9	Q1	+ 4.3
Germany	+ 1.0	Aug	+ 2.6	+ 1.4	+ 1.2	– 0.8	Jul	+ 2.2	+ 2.5	Jun	+ 1.9
Italy	+ 2.3	Aug	+ 2.8	+ 2.3	+ 1.9	– 0.8	Jun	+ 2.4	+ 2.4	Jun	+ 2.7
Japan	– 0.7	Jun	– 0.8	– 1.0	– 0.5	– 2.2	Jul	+ 0.7	– 3.2	Jun	+ 2.1
Netherlands	+ 3.5	Jul	+ 4.6	+ 3.6	+ 2.3	– 2.2	Jun	+ 4.3	+ 3.0	Jun	+ 5.1
Spain	+ 3.4	Jul	+ 3.9	+ 3.3	+ 2.7	+ 0.6	Jul	+ 2.0	+ 4.0	Q1	+ 3.4
Sweden	+ 2.2	Jul	+ 2.9	+ 2.4	+ 2.1	– 0.8	Jul	+ 2.1	+ 4.1	May	+ 3.6
Switzerland	– 0.1	Jul	+ 1.4	+ 1.0	+ 1.2	– 1.6	Jul	+ 0.2	+ 2.5	2001	+ 1.3
United States	+ 1.5	Jul	+ 2.7	+ 1.6	+ 2.2	– 1.1	Jul	+ 1.4	+ 3.2	Jul	+ 4.1
Euro area	+ 1.9	Jul	+ 2.6	+ 2.1	+ 1.6	– 1.1	Jun	+ 3.2	+ 3.3	Q1	+ 2.8
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 1.8	Jul	+ 2.6	na	na	– 1.3	Jul	+ 0.7	+ 3.8	Q2	+ 4.9
Greece	+ 3.3	Jul	+ 3.9	na	na	– 0.1	Jun	+ 5.4	na		na
Iceland	+ 3.2	Aug	+ 7.9	na	na	+ 6.2	Aug	+ 6.9	+ 6.6	Jul	+ 8.1
Ireland	+ 4.2	Jul	+ 4.8	na	na	– 3.0	Jul	+ 4.5	+ 8.9	Q1	+ 7.4
Luxembourg	+ 2.0	Jul	+ 3.0	na	na	– 1.3	Jun	+ 0.1	+ 0.9	May	+ 2.7
New Zealand	+ 2.8	Q2	+ 3.2	na	na	+ 1.5	Q2	+ 8.1	+ 2.1	Q2	+ 1.8
Norway	+ 1.6	Jul	+ 2.7	na	na	– 9.4	Jul	– 3.2	+ 4.6	Q1	+ 4.4
Portugal	+ 3.4	Jul	+ 4.3	na	na	– 3.5	Jul	+ 1.3	– 0.2	Jun	– 0.6

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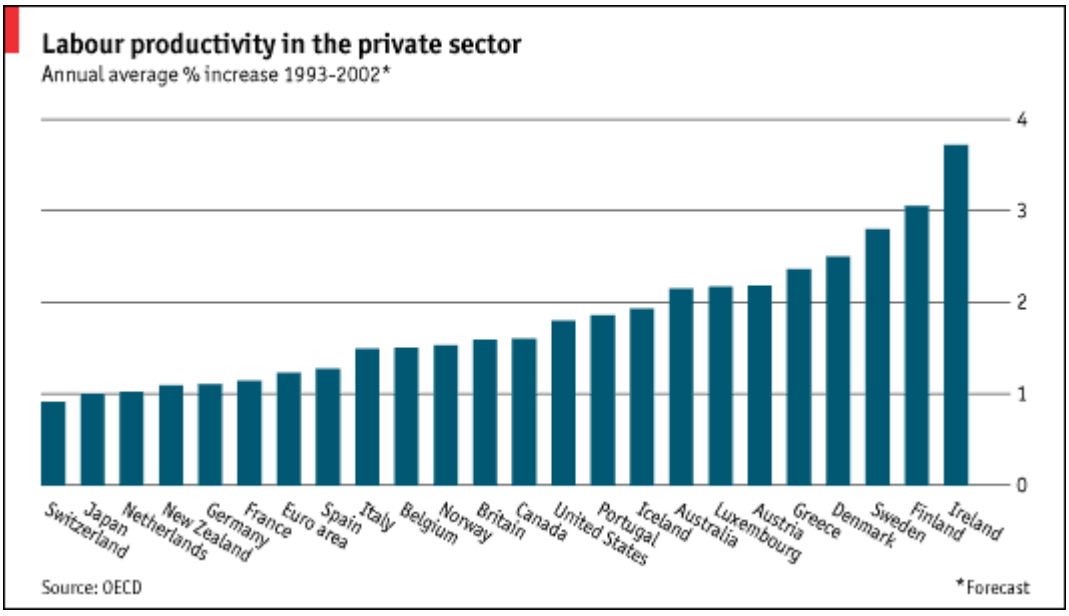
Labour productivity in the private sector

Aug 29th 2002
From The Economist print edition

The fastest-growing OECD economy in recent years, Ireland's, has also enjoyed the fastest rate of growth in productivity, defined as output per worker. At a forecast 3.7% a year between 1993 and 2002, Irish productivity growth, driven by strong foreign direct investment, has been twice America's. Nordic countries have been the next best performers, but Switzerland and Japan have seen only weak productivity growth.



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Money and interest rates

Aug 29th 2002
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Aug 28th 2002)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	– 1.3	+12.3	Jun	5.05	4.82	5.19	5.86	5.49	7.05
Britain	+ 9.6	+ 6.5	Jun	3.97	4.91	3.93	4.62	4.81	5.79
Canada	+17.2	+ 7.2	Jul	2.99	3.82	3.50	5.12	5.36	6.96
Denmark	+ 3.2	+ 7.3	Jun	3.60	4.67	4.00	4.80	5.02	6.84
Japan	+30.6	+ 3.3	Jul	0.02	0.03	-0.01	1.21	1.35	1.28
Sweden	+ 2.2	+ 4.2	Jun	4.18	4.27	4.57	5.06	5.07	5.08
Switzerland	+10.9	+ 5.8	Jul	0.75	3.21	1.27	3.02	3.28	4.03
United States	+ 5.2	+ 7.4	Jul	1.72	3.38	2.16	4.19	4.85	6.56
Euro area†	+ 7.6	+ 7.1	Jul	3.37	4.27	3.57	4.52	4.74	5.42

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 4.93%, Japan No.241 1.24%. Central bank rates: US fed funds 1.75%, ECB refinancing 3.25%, BOJ overnight call 0.002%, BOE repo 4.00%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS Warburg, DRI-WEFA, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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Stockmarkets

Aug 29th 2002
From The Economist print edition

Market indices

	Aug 28th	2002 high	2002 low	% change on one week	% change on record high	% change on Dec 31st 2001 in local currency	% change on Dec 31st 2001 in $ terms
Australia (All Ordinaries)	3,090.4	3,440.0	2,937.8	– 0.8	–10.2	– 8.0	– 0.9
Austria (ATX)	1,123.2	1,357.2	1,113.5	nil	–35.3	– 1.5	+ 8.6
Belgium (Bel 20)	2,290.6	2,899.8	2,001.6	+ 1.7	–37.8	–17.7	– 9.3
Britain (FTSE 100)	4,274.0	5,323.8	3,777.1	– 2.1	–38.3	–18.1	–13.5
Canada (Toronto Composite)	6,579.9	7,958.1	6,161.1	– 1.3	–42.2	–14.4	–12.5
Denmark (KBX)	189.7	233.4	169.0	+ 0.3	–37.1	–15.6	– 6.8
France (SBF 250)	2,298.9	3,081.9	2,067.7	– 1.3	–47.6	–22.9	–15.0
(CAC 40)	3,419.7	4,688.0	3,023.7	– 1.9	–50.6	–26.1	–18.5
Germany (Xetra DAX)	3,682.8	5,462.6	3,332.7	– 4.8	–54.3	–28.6	–21.3
Italy (BCI)	1,213.0	1,513.0	1,077.8	– 0.8	–44.4	–15.4	– 6.7
Japan (Nikkei 225)	9,766.7	11,979.9	9,420.9	+ 1.3	–74.9	– 7.4	+ 2.6
(Topix)	953.9	1,139.4	922.5	+ 0.7	–66.9	– 7.6	+ 2.4
Netherlands (AEX)	377.4	531.2	318.5	– 0.9	–46.2	–25.5	–17.9
Spain (Madrid SE)	671.6	848.1	625.9	– 0.7	–41.4	–18.5	–10.2
Sweden (Affarsvarlden Gen)	154.8	236.8	143.1	– 1.4	–61.3	–33.1	–24.6
Switzerland (Swiss Market)	5,265.9	6,694.1	4,607.8	– 4.0	–37.4	–17.9	– 9.2
United States (DJIA)	8,694.1	10,635.3	7,702.3	– 2.9	–25.8	–13.2	–13.2
(S&P 500)	917.9	1,172.5	797.7	– 3.4	–39.9	–20.1	–20.1
(Nasdaq Comp)	1,314.4	2,059.4	1,206.0	– 6.7	–74.0	–32.6	–32.6
Europe (FTSE Eurotop 300)*	962.8	1,279.7	862.3	– 2.2	–43.5	–23.7	–15.9
Euro area (FTSE Ebloc 100)*	815.1	1,125.1	732.5	– 2.3	–47.4	–26.7	–19.2
World (MSCI)†	835.1	1,024.4	756.7	– 2.5	–42.4	na	–16.8
World bond market (Salomon)‡	495.2	499.8	430.3	+ 0.4	– 0.9	na	+12.6

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡Salomon Smith Barney World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Aug 29th 2002
From The Economist print edition

	Trade balance*, $bn latest 12 months	Current account $bn latest 12 mths	Current account The Economist poll % of GDP, forecast 2002	Current account The Economist poll % of GDP, forecast 2003	Exchange rate trade-weighted† Aug 28th	Exchange rate trade-weighted† year ago	Currency units per $ Aug 28th	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2002‡
Australia	− 0.1 Jun	− 11.6 Q2	− 3.4	− 3.4	73.5	72.8	1.81	1.89	2.79	1.78	1.53	0.1
Austria	− 2.0 May	− 1.3 Jun	− 1.9	− 1.7	na	100.4	1.02	1.10	1.57	–	0.86	-0.3
Belgium	+ 15.1 Jun	+ 13.0 Dec	+ 4.8	+ 4.9	na	99.2	1.02	1.10	1.57	–	0.86	nil
Britain	− 45.6 Jun	− 31.2 Q1	− 2.0	− 1.9	105.0	105.3	0.65	0.69	–	0.64	0.55	-0.8
Canada	+ 34.0 Jun	+ 14.7 Q1	+ 2.4	+ 2.5	76.2	77.6	1.56	1.54	2.40	1.53	1.32	1.0
Denmark	+ 7.2 Jun	+ 3.5 Jun	+ 1.7	+ 1.7	103.0	102.7	7.57	8.18	11.6	7.42	6.39	2.2
France	+ 9.0 Jun	+ 28.4 Jun	+ 1.7	+ 1.6	na	101.9	1.02	1.10	1.57	–	0.86	-2.0
Germany	+100.6 Jun	+ 27.2 Jun	+ 1.2	+ 1.1	na	98.9	1.02	1.10	1.57	–	0.86	-2.8
Italy	+ 9.3 May	− 2.9 May	nil	nil	na	72.7	1.02	1.10	1.57	–	0.86	-1.4
Japan	+ 80.6 Jun	+107.0 Jun	+ 2.8	+ 2.8	136.9	140.0	118	120	182	116	–	-8.0
Netherlands	+ 23.7 Jun	+ 2.7 Q2	+ 4.0	+ 4.2	na	98.2	1.02	1.10	1.57	–	0.86	0.1
Spain	− 36.9 May	− 16.5 May	− 2.1	− 1.8	na	74.4	1.02	1.10	1.57	–	0.86	-0.3
Sweden	+ 14.7 Jul	+ 8.3 Jun	+ 3.3	+ 3.4	77.5	74.3	9.31	10.4	14.3	9.13	7.86	2.1
Switzerland	+ 3.0 Jul	+ 25.7 Q1	+ 9.8	+10.1	113.7	108.9	1.50	1.67	2.31	1.47	1.27	na
United States	−435.5 Jun	−398.1 Q1	− 4.4	− 4.7	113.1	117.0	–	–	1.54	0.98	0.85	-1.0
Euro area	+ 79.2 Jun	+ 24.8 Jun	+ 0.4	+ 0.5	81.7	79.4	1.02	1.10	1.57	–	0.86	-1.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 12.6 Jun	+ 8.6 Jun	na	na	na	78.7	1.01	1.10	1.55	–	0.85	3.2
Greece	− 18.8 Mar	− 6.7 Mar	na	na	na	57.5	1.01	1.10	1.55	–	0.85	0.4
Iceland	+ 0.1 Jun	− 0.2 Q1	na	na	na	na	88.1	99.1	135	86.5	74.4	-0.5
Ireland	+ 33.9 May	− 0.4 Q1	na	na	na	87.8	1.01	1.10	1.55	–	0.85	0.1
Luxembourg	− 2.9 May	+ 1.7 Q1	na	na	na	99.2	1.01	1.10	1.55	–	0.85	2.2
New Zealand	+ 0.1 Jul	− 1.2 Q1	na	na	85.3	82.7	2.13	2.27	3.27	2.09	1.80	0.1
Norway	+ 24.9 Jul	+ 26.1 May	na	na	105.2	95.6	7.52	8.86	11.6	7.38	6.35	14.0
Portugal	− 12.7 May	− 9.3 May	na	na	na	89.6	1.01	1.10	1.55	–	0.85	-2.4

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †1990=100, Bank of England. ‡OECD forecast.

Text refers only to the first 16 countries listed

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The Economist commodity price index

Aug 29th 2002
From The Economist print edition

1995=100

	Aug 20th	Aug 27th*	% change on one month	% change on one year
Dollar index				
All items	72.7	73.2	+ 2.4	+ 7.1
Food	75.9	77.1	+ 3.9	+12.0
Industrials				
All	68.3	68.0	+ 0.1	+ 0.3
Nfa†	71.7	71.0	+ 1.4	+ 5.6
Metals	65.5	65.5	– 1.1	– 4.0
Sterling index				
All items	75.2	75.5	+ 5.1	+ 1.4
Euro index				
All items	98.0	98.3	+ 3.1	– 0.6
Yen index				
All items	92.1	92.1	+ 0.7	+ 4.9
Gold				
$ per oz	308.50	310.85	+ 1.7	+14.2
West Texas Intermediate				
$ per barrel	29.82	28.83	+ 5.4	+ 5.9

* Provisional. † Non-food agriculturals.

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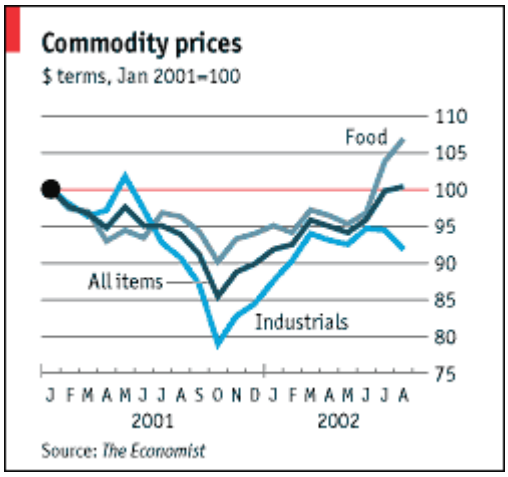
Commodity prices

Aug 29th 2002
From The Economist print edition

The Economist all-items, dollar-based commodity index has rallied by 18% from an 18-year low in October. Since mid-May the food index has risen by 14%, thanks to stronger cocoa and grain prices. But prices for industrial commodities have slumped; the metals index has fallen by 7% since July.



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Overview

Aug 29th 2002

Venezuela's GDP fell by 9.9% the year to the second quarter. The collapse was due in large part to OPEC's decision to cut oil production, which accounts for a quarter of Venezuelan output. Venezuela's $11 billion current-account surplus of a year ago dwindled to $1.9 billion in the year to the second quarter.

The devalued *real* helped **Brazil** to narrow its current-account deficit to $550m in July, its smallest since January 1997. Brazil's 12-month deficit is running at some $16.7 billion, down from $27.1 billion a year ago. Brazil's stockmarket index rose by 10%.

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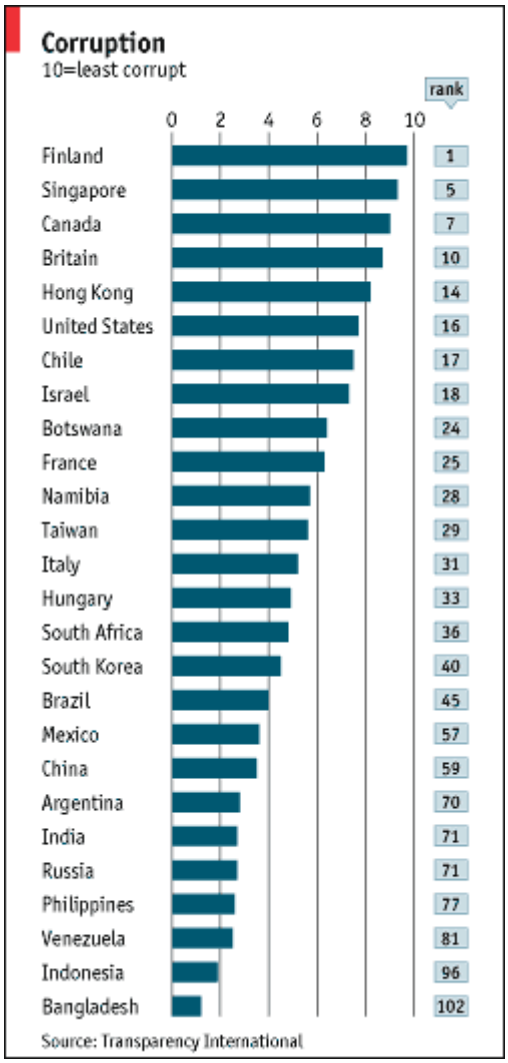
Corruption

Aug 29th 2002
From The Economist print edition

Finland is reckoned to be the least corrupt country in the world, according to the annual index of perceptions of corruption compiled by Transparency International, a Berlin-based organisation that aims to fight corruption worldwide. The index focuses on the misuse of public office for private gain. France is thought to be more corrupt than Botswana, and Argentina almost as corrupt as Russia. Perceptions of Russia are, however, improving: last year, it was as corrupt as Pakistan but now it is only as corrupt as India.



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Economy

Aug 29th 2002
From The Economist print edition

	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 8.0	Q2	+12.8	Jul	– 0.9	Jul	+28.3	Jul	+17.4	2001	241.9	May
Hong Kong	– 0.9	Q1	–11.6	Q1	– 3.4	Jul	– 8.2	Jul	+14.1	Q1	112.3	Jul
India	+ 6.4	Q1	+ 4.0	Jun	+ 4.2	Jun	– 5.4	Jun	+ 1.4	Q1	56.5	Jul
Indonesia	+ 3.5	Q2	– 9.4	Q4	+10.1	Jul	+27.5	Jun	+ 8.4	Q3	28.4	Jun
Malaysia	+ 3.8	Q2	+ 4.9	Jun	+ 2.1	Jul	+13.4	Jun	+ 7.0	Q1	32.4	Jun
Philippines	+ 3.8	Q1	+ 5.9	Jun	+ 2.6	Jul	+ 2.6	Jun	+ 6.2	May	13.5	Jul
Singapore	+ 3.9	Q2	+17.8	Jul	– 0.4	Jul	+ 6.4	Jul	+17.5	Q2	80.3	Jul
South Korea	+ 6.3	Q2	+ 8.9	Jul	+ 2.1	Jul	+ 9.0	Jul	+ 5.3	Jul	115.4	Jul
Taiwan	+ 3.0	Q2	+11.4	Jul	+ 0.4	Jul	+18.6	Jul	+24.8	Q2	155.3	Jul
Thailand	+ 3.9	Q1	+ 6.2	Jun	+ 0.1	Jul	+ 3.8	Jun	+ 6.6	Jun	36.0	Jun
Argentina	–16.3	Q1	–12.4	Jun	+32.9	Jul	+12.6	Jun	nil	Q1	9.6	Jun
Brazil	– 0.7	Q1	+ 0.7	Jun	+ 7.5	Jul	+ 6.4	Jul	–16.7	Jul	41.9	Jun
Chile	+ 1.7	Q2	– 2.0	Jun	+ 2.6	Jul	+ 2.7	Jul	– 0.6	Q2	15.1	Jun
Colombia	+ 0.5	Q1	– 0.7	May	+ 6.2	Jul	+ 0.5	Jun	– 1.4	Q1	10.6	Jul
Mexico	+ 2.1	Q2	– 0.7	Jun	+ 5.5	Jul	– 9.1	Jul	–17.1	Q1	45.5	Jun
Peru	+ 3.6	Jun	+ 2.8	May	nil	Jul	+ 0.2	Jun	– 1.0	Q2	8.7	Jun
Venezuela	– 9.9	Q2	–17.1	Jun	+22.0	Jul	+ 8.0	Q1	+ 1.9	Q2	6.7	May
Egypt	+ 4.9	2001†	+ 7.8	2001†	+ 2.8	May	– 8.2	Apr	– 0.1	Q1	12.7	Apr
Israel	– 1.7	Q2	+ 1.6	Jun	+ 6.9	Jul	– 6.3	Jul	– 2.3	Q1	22.8	Jul
South Africa	+ 2.2	Q2	– 0.1	Jun	+10.6	Jul	+ 3.5	Jun	– 0.1	Q1	5.9	Jun
Turkey	+ 2.3	Q1	+ 6.6	Jun	+41.3	Jul	–10.3	Jun	+ 2.0	May	22.3	Jun
Czech Republic	+ 2.5	Q2	+ 1.3	Jun	+ 0.6	Jul	– 2.5	Jun	– 2.4	Q1	21.4	Jul
Hungary	+ 2.9	Q1	+ 4.1	Jun	+ 4.6	Jul	– 2.3	Jun	– 1.9	Jun	10.3	Jul
Poland	+ 0.5	Q1	+ 6.0	Jul	+ 1.3	Jul	–10.6	Jun	– 6.6	Jun	27.1	Jul
Russia	+ 3.7	Q1	+ 7.8	Jul	+14.9	Jul	+42.4	Jun	+28.3	Q2	39.6	Jul
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Pakistan	+ 3.3	2001†	+21.3	Apr	+ 4.4	Jun	– 1.2	Jul	+ 0.3	2001†	4.1	May
Saudi Arabia	+ 1.2	2001	na		– 0.2	Apr	+44.1	2001	+14.5	2001	18.3	Jun

*Excluding gold, except Singapore; IMF definition. †Year ending June.

Text refers only to the first 25 countries listed

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends.*

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Financial markets

Aug 29th 2002
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Aug 28th		Dec 31st 2001	
	Aug 28th	year ago	Aug 28th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	12.7	na	1,750.1	+0.2	+ 2.2	+ 2.2
Hong Kong	7.80	7.80	12.0	1.75	10,130.3	-2.6	- 11.1	- 11.1
India	48.5	47.1	74.5	5.80	3,099.4	+0.5	- 5.0	- 5.4
Indonesia	8,886	9,150	13,656	14.87	443.0	-3.1	+ 13.0	+ 32.2
Malaysia	3.80	3.80	5.84	3.20	724.7	-0.8	+ 4.1	+ 4.1
Philippines	51.9	51.2	79.8	7.19	1,109.1	+0.4	- 5.0	- 5.6
Singapore	1.75	1.75	2.69	0.94	1,504.9	-1.9	- 7.3	- 2.1
South Korea	1,199	1,277	1,842	4.80	724.1	-2.8	+ 4.4	+ 14.4
Taiwan	34.2	34.6	52.5	2.10	4,789.6	-2.0	- 13.7	- 11.6
Thailand	42.2	44.2	64.9	2.00	365.1	-1.9	+ 20.2	+ 25.9
Argentina	3.61	1.00	5.55	64.30	376.9	-2.1	+ 27.6	- 64.7
Brazil	3.12	2.55	4.79	17.83	10,379.9	+10.0	- 23.5	- 43.4
Chile	713	656	1,095	2.76	4,942.1	-0.9	- 8.4	- 15.0
Colombia	2,693	2,298	4,139	7.82	1,189.8	-0.7	+ 11.1	- 6.0
Mexico	9.89	9.15	15.2	6.69	6,115.6	-2.4	- 4.0	- 11.0
Peru	3.61	3.48	5.55	2.72	1,190.1	-0.5	+ 1.3	- 3.5
Venezuela	1,412	737	2,170	29.62	6,928.8	+3.0	+ 5.5	- 43.4
Egypt	4.60	4.26	7.07	7.15	5,261.8	+0.0	- 0.2	- 0.7
Israel	4.67	4.25	7.17	6.40	368.1	+0.4	- 17.6	- 22.1
South Africa	10.6	8.33	16.3	12.60	9,709.3	+0.3	- 7.0	+ 5.3
Turkey	1,630,000	1,378,000	2,504,984	42.00	9,394.6	-2.4	- 31.8	- 39.2
Czech Republic	31.3	37.7	48.0	3.05	454.3	-1.1	+ 15.1	+ 31.0
Hungary	250	278	385	9.81	7,696.4	+4.9	+ 7.9	+ 18.5
Poland	4.15	4.24	6.38	8.44	13,480.1	+1.2	- 3.2	- 7.8
Russia	31.6	29.4	48.6	21.00	347.5‡	-0.8	+ 38.5	+ 33.6
EMF (MSCI)*	1.00	1.00	1.54	na	298.0	-1.4	na	- 6.1
EMBI+†	1.00	1.00	1.54	na	206.0	+1.6	na	+ 2.8

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡ In $ terms.

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends*.

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